SHARING PROFITS WITH EMPLOYEES

PITMAN'S
INDUSTRIAL ADMINISTRATION SERIES
Edited by A. P. M. Fleming, C.B.E., M.Sc., M.I.E.E.

SHARING PROFITS WITH EMPLOYEES

A CRITICAL STUDY OF METHODS IN THE LIGHT OF PRESENT CONDITIONS

BY
JAMES A. BOWIE, M.A.
LECTURER IN ECONOMICS
DEPARTMENT OF INDUSTRIAL ADMINISTRATION, COLLEGE OF TECHNOLOGY, MANCHESTER

LONDON
SIR ISAAC PITMAN & SONS, LTD
PARKER STREET, KINGSWAY, W.C.2
BATH, MELBOURNE, TORONTO, NEW YORK
1922

PRINTED BY
SIR ISAAC PITMAN & SONS, LTD.
BATH, ENGLAND

INTRODUCTION

HISTORICALLY, profit-sharing and co-partnership appear as the hobbies of benevolent employers. The experiments made in industry attracted the attention of theorists, who, on rather slender evidence, claimed for co-partnership the merits of an ideal form of industrial organization. Extravagant claims call for scornful replies and the vocal extremists of labour have not been slow to respond. Thus the literature on this subject exhibits the movement from the points of view of contending factions.

In this book an attempt is made to learn from each, and to co-ordinate the views of both in the light of practical experience. Much that was previously written on this subject has, by the passage of time, been rendered irrelevant. In every case an effort is made to consider modern post-war conditions and to review the movement in this new light. How far will profit-sharing and co-partnership aid society in its larger development, how far in their application will they promote the just aspirations of labour and remove the exceeding irksomeness under which to-day our economic machinery works? No attempt has been made to give full details in all cases, as these already appear in the valuable Government reports, in the publications of the Labour Co-partnership Association, and elsewhere.

The term "profit-sharing" has been given by many writers a very restricted significance, and while an endeavour has been made to use the term only in this limited sense, the more general expression "sharing of profits" has been employed to include all those schemes where extra earnings, that otherwise would accrue to capital, are handed to labour. That the rate of profit to labour should be in proportion to the rate of profit accruing to capital, and further, that this should be pre-arranged

between the respective parties, while a useful distinction seems, if arbitrarily applied, needlessly to rule out of consideration many allied systems of division.

The main argument running throughout is that every industrial innovation must justify itself on one of two grounds: either it must sweeten social relationships or promote the efficiency of production. Does cash profit-sharing justify itself on either of these grounds?

Briefly put, the conclusion reached in this book is that it does not. From the point of view of increasing production it is incomparably inferior to an equitable system of payment by results. As a means of promoting industrial integration by improving the status of the wage-earner, it is, apart from special cases, quite ineffective.

The further we move from the cash nexus and the donating principle, the nearer we approach a true solution of the problem. Co-partnership, as commonly conceived, avoids the pitfall of mere cash distribution but retains the gifting element. This means that workers with no desire for shares and no knowledge of the rights and obligations involved have these responsibilities thrust upon them.

The wrong method is to give and then try to enlighten the worker as to the meaning of the gift. The primary necessity is Education. The worker desires a higher status than that of a mere wage-earner. This cannot be an unmixed blessing. Greater power means greater obligations, new functions mean new knowledge, higher earnings mean heavier risks. The first and fundamental condition of success in co-partnership is therefore a sound knowledge of the responsibilities involved in share-holding.

This can be guaranteed only by asking labour to sacrifice something for the greater good it hopes to attain. Contributory co-partnership satisfies this test. It implies appreciation followed by desire and effort and is therefore selective in principle. It permits of real control because it implies real ownership of capital, and it offers labour

a vital investment for higher wages while at the same time obliterating the too heavily underlined distinction in modern society between owners and workers.

It would be impossible to thank individually the many employers who have sent drafts of schemes, and it is equally impossible to guarantee that in every case the details set forth have not been altered. It will always be a pleasure for the writer to receive corrections or comments from those interested.

With a view to preserving continuity, detailed references are not given throughout the text, but a list of the publications dealing with the subject of each section is given at the end. The two most important sources of information to which the writer wishes to acknowledge his indebtedness are the three Government Reports of 1894, 1912 and 1920, especially the last, and the many publications and reports of the Labour Co-partnership Association.

The writer's thanks are also due to many friends who have assisted him in the revision of this work. Professor D. H. Macgregor of Oxford University, Mr. A. P. M. Fleming, Editor of the series, Mr. Frank Watts, M.A., and Miss H. M. Bowie, M.A., have each read the typescript; while Mr. R. B. Forrester, M.A., M.Com., has read the work in proof. They have made many valuable suggestions which the writer has endeavoured to incorporate in these pages.

J. A. BOWIE.

College of Technology,
Manchester
1922.

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PART I—PROFITS

CHAPTER I

THE LABOUR VIEW

THE question of profits lies at the root of much of our industrial trouble to-day. In this chapter the purpose is to see profits through the eyes of labour. Unless this is done it is impossible to explain, sympathize with, or criticize labour's attitude to industry. Never before has labour been so acutely critical of our whole industrial system. This attitude is the result of a slow development and is intimately bound up with the spread of a higher standard of education among the wage-earners and their gradual acquisition of political and economic power. It is not due to the war, though undoubtedly accentuated by it. The war has produced economic upheaval, has accentuated the worst features of the present industrial system, and has quickened the social consciousness of the masses.

Can anyone doubt that if post-war profits were moderate or if firms were struggling to keep their heads above water that this would have anything but a moderating influence on labour's demands ? But this is of course very far from being the end of the matter. Doubtless the abnormal profits that have accrued to the shareholders in many concerns have done a great deal to make labour feel that it is not receiving its share. The trouble is prolonged and perpetuated by the operation of economic forces. On

the basis of a certain profit labour claims a wage (as in the case of the miners) that will yield it what it considers a 'just' and equitable share, but immediately this concession is forced the whole position undergoes an Arabian Night transformation. Prices are raised, profits are increased, and wages, *ipso facto*, reduced, and the endless pursuit of the just and proper share is continued. Otherwise to establish labour's share, to fix and standardize it, means at once the falsifying of the figures on which the claim for that share is based, and on this policy there can be no end to the vicious pursuit of an ideal which becomes a lie immediately it becomes a fact.

If the claim, however, be merely for a share in the estate such a claim can be realized, but not by the crude instrument of a mere increase in the amount of purchasing power tokens received. This rigidifying of costs by standardizing wages, which again are the biggest single item in material costs, with no relation to the ultimate product and prices of that which the labour costing so much produces, can never mean that labour's share for any length of time is either just or reasonable. It may chance for a moment to touch that point; it may be much under it, or again it may be far beyond it; but no movements of wages that take place merely on the ground that past profit was great, irrespective of the amount of the present profit actually produced by the labour employed, can be equitable or fair to either capital or labour. Profit-sharing and co-partnership schemes are attempts to supply an equitable principle.

But some extremely vocal sections of the labour movement attack profits from a much more fundamental point of view. They say that production for profit is immoral, undemocratic, and degrading to the workers, that it puts the whole productive process on a false basis because the motive power behind it is gain to an individual not good to a community. To express this in the words used by a leading organ of the Labour Left (*Daily Herald*, 12th

May, 1920, leading article): "A system which finds its motive power in the desire to make profits is a system which cannot be relied upon to provide the essential requirements of the nation."

"For the profit system of its very nature diverts capital, and the labour power which capital controls, not to those purposes most necessary for the community but to those purposes most profitable to the capitalist."

"It was the easy, but entirely unfounded, assumption of the old Liberal political economics that by some providential arrangement the search of the capitalist for maximum profits would lead him automatically to perform the most needed services."

"There was never—in a society in which wealth is fantastically ill-distributed—the slightest theoretical reason for assuming this. The hard experimental tests of reality expose it as a preposterous fallacy—due to the subconscious desire to justify a system so profitable to the dominant class."

"Actually and inevitably, an industrial system based upon the desire to secure the highest possible profit gives us, when we ask for bread, precious stones. It neglects the needs of the workers for the luxuries of the wealthy. It responds in no way to the stimulus of national necessity, always to the stimulus of the 'effective demand' of the people with money."

In view of these statements on the part of labour it is well to understand clearly the nature of its criticism of the present industrial system. Labour maintains that the driving force in present-day production is the employers' desire to make profits. The commodities vital to the life of society are not produced primarily for use or for consumption, but simply because in the process they yield an undefined surplus to the owners of the necessary plant. In other words, it is the view of labour that the desire of individuals to acquire this mere by-product of social service is the animating spirit behind the whole

of present-day industry. Consequently a business is esteemed not by its output but by the income it yields its owners. Under normal conditions of competition, when profits tend to disappear, the agitation of labour tends also to disappear, or at least is confined more or less to theorists on industrial problems, but under an era of readjustment such as the next ten years will probably be, the inevitable injustices of the "natural law" are sure to be revealed to the harm and irritation of both parties.

Present-Day Profits.

If profits represented the payment of society for exceptional ability labour's criticism would lose much of its force. If it could be proved that handsome profits accrued only to the specially gifted, or were in direct proportion to social service, or were a reward for great skill in thinking in industrial matters, then much of the present unrest would vanish. But where it is patent to even a cursory observer that huge profits have simply fallen into the listless lap of many who did less than nothing to deserve them, then the protest becomes loud and vehement. At the root of the present high prices lies the world scarcity of commodities, and as no merchant caused it, much less deserves credit for it, therefore none ought to profit by that catastrophe. Apart then from the opportunities allowed by the present trade position, the growth of trusts, amalgamations, syndicates and associations (and we may add trade unions and labour federations) has also added monopoly power to the bargaining power of economic position.

Much in the present situation tends also to throw the returned soldier into the ranks of the reformers, if not of the revolutionaries. It is officially estimated that during the war period private fortunes in Britain were increased by over £4,000,000,000. Certain people have without doubt thriven out of the war, and that monstrously, and

it is decidedly iniquitous that while the rest have to work harder for in many cases a smaller receipt in purchasing power, these fortunate ones should revel in luxury. The young and healthy citizens flocked to the colours and spent years in undergoing risks that no insurance company would undertake; they got no reward in the shape of remuneration for risk-bearing! Sometimes their wages were enough for them to live on; there were no profits there. Then they came back to the promised heaven of a country "fit for heroes to live in"—and find neither jobs nor houses, and they are called on to pay taxes to find interest on the loans of those who remained at home. The returned warrior finding as ever that his absence has, as it were, cast him adrift to some extent from his social moorings, naturally lends ear to those who preach the doctrine of a new industrial system.

The returned soldier will ten years hence dominate the country. His many causes of grievance give him food for thought. But these grievances do not all lie against capital. Labour, with its jealous trade union regulations, has put obstacles in the way of the employment of ex-soldiers, especially in the building and engineering trades. The labour movement would have done well had it tried not only to attract to its ranks the "salariat" but had consolidated within its ranks the ex-soldier whose place in the main lay there.

But the ex-soldier has peculiar and special reasons for objecting to the present system of sharing profits. He feels that where he had no opportunity, others less patriotic than himself should not have enjoyed fortune's smile. If there be anything in equality of sacrifice there can be no justification for war profiteering. "I say there has been great inequality of financial sacrifice," said the British Chancellor of the Exchequer on 11th May, 1920, in the debate on the Finance Bill; "while the country as a whole is poorer, a section of the community has profited in the very circumstances which impoverished so many

others. The great mass of this wealth was honourably won, and not only so, but the men who got it could not have avoided winning it if they did their utmost to supply the urgent needs of their country at the time." He also referred to "a few black sheep."

If it was right to conscript life it is much more right to conscript capital and even more so to conscript war period profits.

Profits and Prices.

Again the worker feels that there is a direct connection between profiteering and high prices. He had no opportunity of taking advantage of the commercial situation to increase permanently his real income, but the high prices he is absolutely compelled to pay. The argument that big wages are the cause of high prices simply overlooks the real cause and effect relation, indeed it reverses it. The present index number (March, 1921) representing a rise of 160 per cent on pre-war prices is considerably over the average rise in wages of the mass of labour. Labour in many grades to-day is still vainly claiming that its real wages should be made commensurate with the rise in the cost of living. In the main it has failed even to maintain its pre-war standards.

But this does not deny that the rise in the cost of living is stabilized by the increases in money wages. Owing to the withdrawal of millions of producers, goods became scarce and, as a result, prices rose. This meant the same thing as a reduction in real wages. Every additional upward movement in prices made it more imperative for labour to claim higher money wages. Whether the general public or the State were the customers, industry found itself in an extremely strong strategic position, and, as an almost inevitable consequence, prices climbed higher and higher. This meant severe hardship for the man whose wages were always near the level of subsistence and he strove for higher money wages. These, being granted,

meant heavier costs of production and for a time reduced profits; but the situation was too favourable to induce industry to exercise self-control and from this higher level of costs the same ample margin of profit was extracted. Add to this the huge increase of purchasing power through inflated currency and the lavish use of credit and this additional depreciation in the buying power of currency necessitated a still further addition to the wage-bill.

Thus the true picture of the relation of prices and wages presents itself. Prices at first went up in obedience to the law of supply and demand, and the economic power the seller had in the higgling of the market enabled him to reap unusual profits. This led to an advance in wages and consequently in costs of production, and in quest of the same margin of profits prices moved upwards with wages again in vain pursuit. Thus the effect of a rise in wages is to buttress up the ever-growing wall of prices, while itself not so much the cause as the consequence of depreciated purchasing power. Those with fixed incomes, and without the bargaining power of organization have suffered still more and the considerable progress made in bringing together the "black-coated" workers is at bottom a measure of self-preservation. The economic power which the present world scarcity of goods throws into the hands of the capitalist must, it is felt, be paralleled by the power of organization among the workers.

The frequent public inquiries into the extent of profits made testify again to the fact that this occupies the centre of labour's consciousness. The Coal Commission early in 1919 drew public attention to the huge profits that had been made by certain favoured coalowners and resulted among other things in a promise by the Government to limit mining profits. The Excess Profits Tax of 80 per cent on profits over the standard during the war, and of 40 per cent and then 60 per cent at later periods before its abolition, was another acknowledgment of the necessity of interfering in the question of profit-making. Indeed

the very necessity for the control of prices was a tacit acknowledgment of the failure of economic forces to preserve social justice. That the mere signing of the armistice or indeed of the peace treaty would restore normality was not to be expected, and the many perplexities which surrounded us after the war were due to the simple fact that opportunities for exploiting the consumer in the interests of shareholders were never more numerous than they were then.

Profits and Wages.

Claims for higher wages are normally made on one of three grounds: firstly, because of the rise in prices, as by the transport workers, the railwaymen, and the Post Office employees; secondly, because of the huge profits made by employers, as by the cotton operatives and the miners; or, thirdly, a definite claim is made for a higher standard of living than before. The first claim rests on the desire of the worker as consumer to preserve the same standard of life as he had before prices soared to their present height, the second and third rest on a desire to share in the industrial prosperity to which he, as producer, contributes. And, all through, the windmill at which the worker tilts is profits; this is the share the functionless *rentier* gets as set against what he, the worker, gets as wages. Indeed it is not too much to say that one of the main sources of irritation behind much of our post-war industrial unrest was the swollen profits that for a time fell into the lap of the undeserving.

The real root of the discontent and disappointment that gives rise to the internecine warfare is not always obvious in the explicit claims that labour advances. Labour, though it really wants the moon, finds there is no use asking the employer for it. It has to circumscribe its claims to the powers of the employer. So it demands shorter hours and bigger wages and to a short-sighted observer it may seem that these granted the matter is

at an end. But events disprove it. There is a disease of the body politic of which these are only the symptoms and no mere homoeopathic treatment will avail. Mr. Harry Gosling, in his presidential address at the Annual General Council Meeting of the National Transport Workers Federation, on 3rd June, 1920, said: "I say quite frankly that if increased production is to be obtained merely to provide more interest and bigger profits, in my opinion the workers will have none of it. Increased production, in my judgment, must be used to raise the standard of life for the workers, to give them a chance to develop their qualities, to give the wife and mother better opportunities for rearing the future citizens of the Empire—and not to make the rich richer, the powerful more potent, and the ambitious more arrogant."

Attempts at a more fundamental treatment have been made. When control of prices was removed we began to appreciate its merits. Prices soared and the cry was to catch the profiteers. In this the profiteering tribunals signally failed just because they looked in the wrong direction for the culprit. The retailer under the abnormal conditions was more or less a helpless minion in the hands of the wholesaler and producer, and was not likely to turn king's evidence against the man who furnished him with his scanty and therefore cherished supplies. The committee on trusts went nearer the roots of the matter and its revelations point to the existence of almost complete control over many necessary commodities by small groups of individuals. No small body of citizens, whether trade unionists or employers, has a right to be a little autocrat in any domain of social or industrial life. If combination has made it so, the State must see that this rival to power first and foremost serves the social well-being and does not use its power to exploit its victims.

From these many indications we see that there is a deep-rooted protest against the untrammelled operations of the present system. This system does not ensure the

equitable distribution of wealth. It distributes income not according to needs or deserts or services or any known principle, but is largely promiscuous and haphazard in its operation. And since the share of labour is wages and the share of the employer is profits, it is around the justice of these two shares that all controversy rages. Labour seeks to increase its share in direct proportion to increases in the share of the employer. The State sought to tax and in some cases to regulate profits. But the power of the employer to conceal his real profits and to shift the incidence of the tax on revealed profits, or to limit production, as in the case of wheat, where prices are controlled, largely nullified the process, and restored, in spite of efforts, the industrial status quo. A more excellent way is now thought to be advanced in the plan of profit-sharing.

We have seen labour's attitude to profits and later on we shall see its attitude to profit-sharing. But the point here is that the latter scheme is an attempt to satisfy labour on the question of profits by seeking to make it a profit-taker as well as a wage-earner.

Summary.

The present condition of labour unrest marks a stage in the gradual uplifting of the worker-class. While the causes that lie behind it and the ideals that inspire the masses stretch beyond the economic plane, all these are focused and epitomized in labour's attitude to profits. This reveals at once the worker's criticism of the present industrial system and the economic ideals to which he aspires.

Frequently claims were made for a share of profits in the form of increased wages. In this there is no finality and —sick of the endless pursuit—peace is often sought in condemning completely our whole commodity-producing system. It is urged that the system is designed to benefit the few at the expense of the many.

Everything since the war has added fuel to labour's bonfire. The confused upsetting of economic conditions

only sharpens the edge of criticism. Profits have less than ever any relation to needs or deserts. Their distribution could hardly have been more promiscuous if they had been showered down from heaven. If they had little relation to deserts they have had less, indeed they have almost been in inverse ratio, to needs, as every ex-soldier knows.

Again, labour urges, our industrial system admittedly collapsed during the war period, as was proved by the necessity of controlling prices, establishing profiteering tribunals, and taxing excess profits. Opportunities for exploiting the consumer were given and the above regulations prove they were taken. Profit-making became profiteering and wages started on a desperate but vain chase after the soaring prices.

This system, apart from its accentuated evils, labour calls immoral. If the maldistribution of profits constitutes the immoral feature of the system, a scheme of spreading these profits among the wage-earners will remove the weak spot. Hence some people place their hope in profit-sharing.

CHAPTER II

THE EMPLOYER'S VIEW

"My inducement to produce" may be taken as summing up briefly the employer's attitude to profits. This is the prop that supports at present the process of production, and to remove it is to destroy the process. No one will deny that the function of serving the communal needs is at present undertaken for two main reasons. First and foremost there is the hope of becoming rich by earning large profits. But few men, once they had become rich, would choose to transport those riches to an island in the Pacific and surround themselves with every conceivable form of luxury. It is not the mere hope of possessing money nor of enjoying a never-ending stream of luxury commodities that induces some men to become, and most men to aspire to become, employers. To the normal man a great part of the attraction lies in the power, prestige or status he receives. He aspires to a position of independence with all that it carries with it in the way of opportunities for developing his particular personality.

Others enjoy business as they do a sport—the love of the game appeals to them. They get as much enjoyment from it as another man would in landing a salmon, or in holing a ten-yard putt. But while these are items of considerable importance it remains true in the main that the hope of earning profits is the chief attraction.

That this need always be so no man of vision will affirm. But nevertheless this is the present fact. The huge yet delicate and sensitive industrial organism exerts its desired effort under this stimulus and does actually produce more or less efficiently the world's supply of consumable goods. Otherwise the present system on the evidence of fact actually works. This is perhaps the most potent argument

in favour of its continuance, and certainly justifies caution and reserve before attempting to substitute some untried alternative.

But while the present capitalistic régime actually serves to some degree, at least, its main social purpose, there are distinct signs that it fails in many directions. The gambling instinct inherent in humanity which prompts pioneers to initiate commercial enterprises has probably not failed as a motive to production. There are few indications that the prizes awarded to commercial success are not sufficient to call forth the necessary effort to produce. This effort is composite. It means that instead of buying goods immediately consumable, money is spent on machines, plant, and buildings which will yield income in the future. It implies waiting. It may be said that "waiting" is a very poor example of effort but this is merely a dialectic point, and waiting or refraining from present consumption is a service absolutely necessary in present-day industry. Some have called it self-sacrifice, but there seems no need to elevate the action to this lofty pinnacle. This is not an incidental service but an absolutely indispensable one, and if the inducement to perform it is destroyed some other person or power must take it over. With the present population roundabout methods of production are absolutely essential and this postponement of consumption must be undertaken by someone.

But nothing is assured in industrial life and the waiting may be in vain. The capitalist who supplies funds to purchase the instruments of production is doing so in the hope that the community will purchase what he produces, and that after his varying charges in wages, salaries, materials and "overheads" have been met he is left with a balance in profits to his credit. He bears a risk inasmuch as he pays now and hopes to reap hereafter. His most shrewd forecasts may be absolutely upset by a multitude of events over which he has little control. A war may intervene and stop the demand for his luxury goods and

his patents may lapse in these unproductive years. Strikes in his industry or in others related vertically to it may occur the public taste may change, foreign competition may intervene, tariff walls may be erected against him, trade may take one of its cyclical dips into depression, new patents and substitutes may oust him from the market, governmental regulation or control may hang like a millstone around his neck, taxes may be imposed, labour may restrict its output, and a hundred and one things occur to falsify his expectations. This risk has to be borne and profits are the only inducement to undertake them.

This may seem to justify the employer, as capital owner, in reaping unlimited profits, but this does not follow. The cardinal point is that many of these risks, indeed most of them, are outside his control. This means that if he fails the fault is often not his own. It is a simple case of bad luck. He has thrown the dice and lost. To induce him to undertake this risk it is certain that the hope of extra profits must be present. If we take 6 per cent as the return for simple waiting, equivalent to what the lender would get in a safe investment, then something over this must be held out to induce the lender to hazard his money on a problematic future return. How much this need be must depend on the extent of the risk. The profits promised on a skating rink must be much higher than those offered by a boot factory, if we are to call forth the speculative effort. This infinite variation of risk makes it almost impossible to estimate in advance the extent of profits necessary to call forth the effort. If these cannot be estimated with exactitude they cannot be limited without harm to the whole industrial structure.

Interference with Incentives.

Turning now to the other side of the industrial picture, we find that as losses cannot under unfortunate circumstances be avoided, so profits similarly under favourable conditions simply accrue more or less automatically to the

fortunate possessors of the means of production. It is not due to energy or initiative or particular skill of any kind but is simply a matter of luck. For the two years immediately following the armistice enormous profits were reaped by those who held shares in cotton, woollen, shipbuilding and indeed in most productive enterprises. As an off-set great losses were suffered by all holders of gilt-edged securities, the amount of their total depreciation on the Stock Exchange being some £167,000,000 for 1919. Thus we see that in limiting profits we are lessening inducements to production, while unless we guarantee against losses we are not altering deterrents and the net result must be a disinclination to undertake economic risks.

That this is no mere theoretical result, but is the actual course of events, is plain from the following cases. In 1909 the Land Increment Valuation Act was introduced foreshadowing taxation on building sites and this at once damped the ardour of the speculator. The building trade suffered severely and the supply of new houses went down. During the war the Rent Restriction Acts were introduced and were extended more or less indefinitely into the post-war period. The result of thus limiting the returns of the landlord to what was little more than his pre-war figure meant that the building of houses received its death-blow as an ordinary business proposition. Output was killed, even necessary repairs remained undone, and when the building contractor again began to function he turned naturally to the profitable enterprise of erecting "luxury" buildings. And so the State had to step in, with what measure of success we are all aware. There seems to be no stable half-way house between State interference with incentives and the State becoming the employer.

We say advisedly State interference with motives to produce—roughly with profits—for there is another great sphere open to State intervention which, while lifting the productive process to a much higher plane, does not throttle initiative. Factory Acts, Shop Acts, Truck Acts,

Public Health Acts all prescribe minimum conditions of health and comfort for the workers, and if enforced with equity merely handicap every employer to the same extent. It can even be maintained that these regulations add more to industry than they subtract from it, and that the better working conditions, by increasing the well-being of the workers, lead to increased production. In the latter case they strengthen home industry against competition from abroad, while, if this be not the case, it is certain that (apart from the possible international regulation of labour conditions) their effect is not considerable. It is when we come to the question of State control of the finance of industry, whether it takes the shape of taxing or limiting profits, or fixing prices, that the real difficulty begins. This interfering with incentives may come not only from the State but also from trade unions, for advances in wages, restriction of output, limitation of apprentices, rigid rules against the mobility of labour, or a shortening of the working week below that yielding maximum production over a long period may similarly interfere with the incentive to undertake the risky process of production.

All these evils are demonstrated in the case of the housing problem. The State rigidly fixed rents, thereby making the building of new houses wholly unprofitable; hence having killed the proverbial goose that so often waddles across the economic stage, and being urgently in need of eggs, it had perforce to take over the function of laying them. This necessitated a State scheme of housing, the raising of huge building loans, an elaborate bureaucratic system of approving of plans through the Ministry of Health, and the slow, cumbersome, wasteful process of the State becoming, through the municipality, the new building agent with the certainty of having to provide huge sums from the coffers of a depleted exchequer. This may well give us pause, and the instances can be multiplied.

The Necessity of Preserving Incentives.

More or less State interference with incentives leads inevitably to the State becoming the employer. This can be avoided only if things are put back again on an economic basis. During the war control was certainly necessary, but the Government makes a great mistake if it thinks that it can continue to control industry without the grave danger of suffocating it. During the inevitable industrial confusion created by the war it was certainly necessary that the Government be in the saddle, but the greatest boon it can confer on industry now is to get off its back. The evil is clearly exemplified by the limitation in the price of home grown wheat The fixing of the price of wheat at 76 shillings a quarter while the foreigner in the same market got almost double that amount meant inevitably that the farmer restricted his area under wheat and devoted his attention to more profitable crops. The result was seriously to diminish the output of home-grown wheat; added to this a bread subsidy of some £50,000,000 in 1919 was necessary to keep the loaf down to 9½d., and you have the double evil of restricted output and depleted exchequer.

The Government have in this case adopted the better method of trying to put the whole productive process back on the ordinary economic basis. The only alternative to this was to move forward from control to ownership. Nothing that has occurred during the war has tended to deepen the nation's faith in the State as employer; indeed, in almost every case facts have gone to demonstrate that bureaucratic administration of industry is cumbersome, wasteful and inefficient. While extreme centralization stands condemned by experience, the administration of an industry by its own representatives has vindicated its usefulness and effectiveness, and it seems safe to prophesy that much valuable work can be done by the Joint Standing Industrial Councils of each industry. The march of practical events seldom conforms rigidly to the route visualized by theorists and it is the traditional attitude

of theorists to stand aloof and condemn even when events are shaping the course in their direction. The Whitley Councils are a step in the direction of the democratic control of industry and still the advocates of the latter hold aloof and condemn simply on the ground that "no bread is better than half a loaf." Thus Socialists, whether Guild, State, Syndicalist, Communist, Soviet or Marxian, have condemned the Whitley proposals and in so doing condemn themselves. As a result the vast mass of moderate progressive opinion naturally classes them with revolutionaries and considers them along with reactionary capitalists as the real enemies of all progress.

The Present Trend.

Thus we find society to-day definitely moving in the direction of industrial democracy while at the same time finding it necessary to conserve profits in order to stimulate production. Here we have the horns of the present dilemma, for fundamentally the two are necessarily inconsistent. For industrial democracy, if it ever is to become a living reality, must attain control over, or a share in, the monetary incentive to production. The first step in this direction is to give the workers in each business opportunities to learn as much as they can or care about the financial side of the undertaking. If profits are not freely and frankly revealed labour will not abide in ignorance but will inevitably suspect the worst. It is fundamentally as reasonable for the Chancellor of the Exchequer to impose taxation without showing a Budget as it is for an employer to pay or withhold certain wages without revealing his Balance Sheet. And if the employer persist in his autocratic outlook he merely fans the flame of discontent.

Advances in wages are frequently resisted on the grounds that the industry will not bear it. To demonstrate the truth of this and reveal it as a hard fact and not a dialectic parrot-cry it must become the established custom in industry to reveal the financial standing and progress of

the firm. As industry fluctuates to-day the greatest safeguard against unemployment would be the co-relation of demand and wages. Demand (therefore prices and therefore production) varies very greatly from time to time and if you rigidify wages you merely increase dislocation. No greater step could be taken towards securing steady employment than that wages and profits should be knit together. Profits are largely determined by demand, and a full disclosure of the conditions of trade is the first step towards making the workers realize the essential nature of the industrial partnership of labour and capital.

The present thorny relation of labour and capital is rendered much more difficult to deal with by the fact that there is no common platform of established economic doctrine on which the two can meet in argument. The basic principles of economics are not understood by labour. Though a man have to spend his lifetime in business there is no attempt during his school life to prepare him for this. In the realm of business he enters a new country and being ignorant of fundamentals and seeing only the spectacular he thinks through the situation in childish simplifications. The most abstract thinker in Britain to-day is the working man. He condemns on scanty evidence, thinks without knowledge, readily subscribes to the most visionary schemes of reconstruction, abstracts facts from their context and draws erroneous deductions, believes in the necessity of destruction and revolution without any clear idea of the structure he proposes to destroy or of the substitute he hopes to provide. The working man must be taught to think concretely on economic matters. To this end the spread of a knowledge of economics is a thing earnestly to be desired.

Summary.

Profits are to the employers the spur to effort and the prize of the game. Some may love the game but most

work for the prizes it offers. The services of capital include at least the postponement of consumption and the undertaking of risks, and profit represents the payment for these.

Practical experience proves that if you interfere with business incentives, you destroy the motive to produce. The State can, however, safely prescribe minimum conditions under which production must take place but it cannot safely lay down maximum rewards. It cannot estimate the services of capital and therefore cannot fix the payment it deserves.

Where the State has attempted to do so it has inevitably been left with the entire burden to bear, and it has always proved unfit for the task The function and purpose of the State is not to run industry. If modern industry must be democratized and State administration decentralized surely both these are satisfied in local joint organization. The Whitley scheme can be the first step in this direction and ought to be encouraged even by those who desire much more.

To-day the worker's desire to share control and the employer's attempts to conserve his autonomy are clashing. Ultimately victory must lie with the workers. If wages bear any relation to what the industry will bear, labour is entitled to know the facts. This means frankness, openness, and publicity an all industrial matters.

Labour to-day has just the wrong amount of education "Shallow draughts intoxicate the brain and drinking largely sobers us again." A fuller, completer knowledge of economic facts among all industrialists, an agreement as to first principles, would supply a common platform for capital and labour, and do much to facilitate the solution of industrial difficulties

CHAPTER III

AN IMPARTIAL CONSIDERATION

THE transformation of the raw materials of the earth into want-satisfying commodities calls for the exercise of three distinct functions quite apart from the exercise of mere manual toil. There must be the postponement of consumption in order to buy the machinery and tools necessary for production, then risks must be faced, and lastly much skilful planning and organizing must be undertaken. No matter how industry is carried on, whether under private or State management, these services are essential. Unless these services are paid for they will not be forthcoming. What in profits represents a true and just return for these services must be preserved. To determine this positively is simply an impossible task as circumstances and industries and prospects vary indefinitely.

While this is so, it is, on the other hand, a matter of no particular difficulty to indicate the objectionable elements in present-day profits. When the war ended hundreds of shareholders found that they could sell their holding for many times its pre-war value. They had grown rich in their sleep. They advanced the capital, undertook a limited risk, contributed absolutely nothing to the prosperity of the business from the side of management and then found themselves rich beyond their dreams. The enhanced value of their shares was just the purest good luck, and was certainly entirely undeserved. Lord Colwyn, chairman of the recent Income Tax Commission, gave several examples of wealthy men worth five or six times their pre-war capital. It is a matter of common knowledge that shareholders in cotton mills have been bought out at from five to six times the nominal value of their holdings.

There can be no real justification for this state of affairs. That feature of the present industrial system which permitted such windfalls must stand condemned. Indeed this has reduced industry in the eyes of uncritical observers to a mere gamble.

Labour naturally feels aggrieved. It compares its own limited remuneration, won in the main after requests, claims, demands, threats and strikes, with the haphazard showers of good fortune that have filled the laps of lucky shareholders. The claim to "share the swag," as a labour leader put it recently, comes as a natural consequence. The miners, the dockers and cotton operatives have quite definitely given this reason for demanding big advances in wages. And few will deny that such claims are under the circumstances perfectly natural if not entirely reasonable. If then wages and dividends, are, as labour urges, to advance together, in what sort of harness should they be yoked?

The Sliding Scale.

No doubt the sliding scale system of adjusting returns to prices should have been adopted as the guiding principle. Wages and salaries could have been automatically multiplied by the index number at each jump of 10 per cent. As it is, returns have simply gone anywhere and the maximum of injustice and the minimum of equality have been the results. Rents were pinned down by Act of Parliament, wages were forced up by organized action, salaries earned by "the boobs in the middle—the Great Tertium Quid," as an American put it, are "faint yet pursuing," while dividends have in many cases soared rocket high. This indiscriminate haphazard distribution of the national dividend could have been considerably regularized had the sliding scale been adopted early in the war. As it is, only by fighting tactics has labour managed to adjust wages to the rising prices, and it is certain that any suggested reduction will be strenuously resisted. Had the principle of the sliding scale been definitely used in a scientific way to

stabilize the standard of life, there was at least a possibility, and at most a likelihood, that reductions in wages might be accepted in the same light. As things stand at present the constant bickerings between capital and labour that have marked the upward trend of wages will most certainly be continued when wages have reached their highest point and begin their downward career.

Nor is it too late yet to introduce the sliding scale system. Wages are likely to remain high for some time to come, and if the worker got accustomed to receiving automatic advances, there is a certainty that he will in any case be less resentful of reductions on a similar principle. Such reductions are bound to come in any case, but we have the choice of inculcating a principle while yet its application may favour labour, or alternatively waiting for the economic pressure of bad trade, unemployment and general poverty to force them down. It would seem, in the light of the present severe trade depression, that the business community had drifted to the latter alternative.

Some labour leaders have apparently considered that the sliding scale principle means that wages are always determined by the bare level of subsistence. Nothing is further from the truth. The sliding scale merely ensures that the *same* standard of living is preserved no matter how prices fluctuate. It does not *determine* that standard on any basis, much less on "an animal basis," and only dire ignorance can call it (as some labour leaders have done) a "fodder wage" or a "carrot wage." Trade unionists should welcome the establishment of a fixed standard of living, independent of the rise or fall of prices, because their whole energies can then be devoted to raising that standard and they are free from the continual worry caused by the fluctuating value of the currency.

While the explicit acceptance by industry of this principle would do much to ensure the due reward of industry to labour other regulations are no less necessary. The adoption of the sliding scale carries with it several corollaries

of great importance. As money wages should automatically keep pace with the rise in cost of living, so also should the value of fixed capital. Of course it may be objected here that machinery should be revalued on the basis of cost of reproduction and not on cost of living, but to do so might mean over any considerable period a tremendous inflation such as indeed has taken place among the cotton mills. This is full of perilous possibilities for the future, and is decidedly bad for the industry as a whole and all who live thereby. But in revaluing on this higher level it means that the same percentage of dividend can be paid on the later assessment, or, alternatively, a dividend increased *pro rata* with the cost of living could be paid. The revaluation of assets is of course the preferable way as it safeguards the interests of extensions.

The Limitation of Profits.

Further, it is certain that the future must hold some scheme for regularizing profits. Not that the real pioneer in industry will ever be penalized—his services are of supreme value to his society—but the class contemptuously called "functionless rentiers" will certainly have their chances of reward curtailed. The clumsy method of taxing excess profits is rightly abandoned. The method is not scientific, it is often unjust in its incidence, almost always results in extravagance and waste, and is too rigid to fit closely the varying conditions of industry. Fixing of prices is also unworkable, it means curtailed production and cannot be enforced easily in foreign markets. The regular institution, by the State, of scientific costing, measurement and publicity would involve too near an approach to bureaucracy to be welcomed, and in the deplorable absence to-day of a recognition by the majority of employers of the great value of a sound costing system, its application to industry, even if industry were in the hands of great trusts, would be enormously expensive. Nationalization again, whatever its desirability in certain

routine monopolistic industries such as railways, mines, shipping, banking and insurance is very far from being either practical or desirable in general industry, and until the State has evolved a better method of handling business efficiently the sphere of nationalization will remain very limited. Along what lines therefore is it possible for the State to regularize profits ?

The four component parts of profit as broadly conceived are—

1. Interest on capital.
2. Return for risk-bearing.
3. Wages of management.
4. Surplus.

The first can be definitely ascertained at any given period. Its amount should equal the return on gilt-edged securities and is determined largely by the conditions of supply and demand at the moment. To-day it would equal about 6 per cent. There are those among us who maintain that even pure interest on capital is immoral, that it represents payment for no service whatever and is in effect mere usury. Such men call for the complete abolition of all interest. It is sufficient for our purpose to reply that interest most decidedly does represent payment for a service capital renders to production, and that any attempt to abolish it would be tantamount to denying that capital is essential to modern production.

The return capital gets for the risks it runs differs enormously in different industries and at different times. Under any system of production this risk must be borne. The conditions determining the extent of the risk are largely beyond the control of the industry concerned. Of recent years, however, there can be no doubt but that the most incalculable factor in production has been the remuneration of labour. Included in this is not only the immediate effects of a sudden increase in the wages actually paid to the labour directly employed in the industry, but the far-reaching effects of an advance in wages in increasing

the costs of raw materials, as, for instance, coal. But many other factors contribute to the risk in industry. Social factors, such as changes in fashion, wars, new inventions; economic factors like new trade combinations, tariffs, taxes, wage advances and trade cycles; factors like government regulations, subsidies, Factory Acts, changes in the policy or *personnel* of management, all have their varying influences in making business, even to the most far-seeing, a matter of extreme risk.

Is it possible in any way to estimate in advance what that risk will be and to ensure that no more than the proper premium is paid to shareholders for the risks they run? Most of the various possibilities in private and business life can be insured against. This means that the factors of probability can be worked out and the premiums covering that risk paid accordingly. Already the business community insures against accidents to employees, injury by fire, bad debts, and possible damage to persons not actually employees (third party risks). Would it be possible to insure similarly against failure, or loss of profits? If this could be done there would be no necessity for ordinary shares at all, and all capital invested in business would earn a fixed rate of interest approximating to that paid on gilt-edged securities.

But this in the nature of things is a totally impracticable proposition. While things that happen to a business rarely, and are beyond the control of the management, like accidents and fire, can be insured against, it is a very different proposition to insure against what the management will certainly drift to, if without incentive. Even in the cases mentioned precautions are taken and safeguards insisted on before the policy is accepted. But to remove from business the fear of loss and the hope of reward is to cut out the very mainspring of industry. For in the matter of limiting profits, insurance against loss is only the necessary means to guarantee a uniform return no matter what the particular conditions of the day. It

is for these reasons quite impossible to disentangle from the sum of profits the return justified by the extent of the risk borne and to separate that from any undefined and unqualified surplus that remains after this has been met.

First Principles.

Here it is in order to remark on the profoundly different principles that meet with approval in the industrial world in Britain to-day. The employing classes, almost without exception, subscribe to the doctrine of personal and individual incentives. They believe in the freedom of trade from governmental control or taxation, in clear elbow-room for private initiative, and in giving similar inducements to labour to produce through a system of payment by individual results. Labour, on the other hand, seems to aim at doing away with private initiative both for the employer and for the employee. It subscribes to the doctrine of nationalization, it opposes in many cases, at least in theory, the principle of payment by results, and pins its faith in common ownership and communal control.

If some agreement could be reached on this first and fundamental matter of general policy there might be some hope of introducing the team-spirit into industrial life. Bureaucracy is certainly not the solution. There is every probability that industrial democracy is. Both sides are favouring movements that lead in this direction. Employers are establishing Whitley Councils and works committees, are developing what is named, rather unfortunately, welfare work, and are initiating systems of remuneration by which labour may improve its status from wage-earning to capital ownership. Labour is more and more veering round to a theoretical approval of a system of guild socialism; it is becoming, if in no other way than by developing its trade unions, a capital owning and trade regulating class.

It will probably take as long to consolidate the efforts of capital and labour in the industrial field as it took to effect their separation. For the two movements, while

undoubtedly sharing a common direction, are animated by different motives; and a whole world of mistrust, suspicion, neglect and unhappy tradition keeps the two sides apart. But the dangerous feature of the present situation is that the hiatus between capital and labour should widen faster than the attempts made to bridge it develop. The ultimate end to such a happening can only be a revolution.

Common responsibility plus individual initiative must be conditions of any new orientation of power in industry. When it is possible to fix the just reward to capital invested in a speculative industry it will be possible to dispense with profits. Leadership will always be necessary in industry and no business will thrive under the management of a debating society. To encourage men of talent and ability to assume such responsible posts, conditions permitting of individual initiative, personal incentive and private gain must be maintained. The operation of the Excess Profits Duty shows the folly of governmental interference with the trade motive.

This consideration rules out of court most of the suggested means of direct taxation of industry. No matter whether it be a revival of the Excess Profits Duty, or a corporation tax, or taxes on turnover or on retail purchase price, or on war period profits or on capital, the same blighting effects will ensue in industry. It is impossible to fix a just and fair tax on such an ever-changing, ever-moving, ever-advancing and receding feature of social life. If then labour's censures against the privileged class of profit-takers be just and weighty, while at the same time the interference of government with profits and production-inducements would be disastrous, is there no way out of the present dilemma?

It is not our purpose here to develop this theme, but the opinion may be expressed that the inequalities in the distribution of the national income could be best minimized by, first, the adaptation to this purpose of the Income Tax, and, second, by enabling labour to become capital owners

and therefore profit-sharers. The Income Tax is the fairest and most equitable tax yet devised; the country has had an intermittent experience of well over 100 years of its operation; it leaves industry untrammelled and is graded directly according to ability to pay. The present unfortunate caste division of society into profit-takers and wage-earners, into owners and workers, with all the psychological concomitants of different and opposing points of view should be obliterated by the extension of capital-owning into the ranks of labour. It is the chief purpose of the present work to indicate the most promising lines along which this can be developed with safety in the present and hope for the future.

Summary.

While not denying the essential services that capital renders to industry, it is impossible not to admit that industrial capital is frequently over-remunerated. This was the rule during the war and for some time after it, and naturally provoked a great deal of dissatisfaction among the non-sharers.

Economic forces from August, 1914, till November, 1920, reduced wages by raising prices. This back-handed reduction labour strenuously resisted and enormous losses and dislocations resulted. These continual struggles have ensured for labour an approximation to its pre-war wages and the same result could have been easily and peacefully achieved by knitting together prices and wages in a sliding scale based on the cost of living.

If, therefore, the free play of economic forces has led to such a rise in prices as meant over-remuneration for capital and under-remuneration for labour, which latter was obviated only by industrial strife, is it possible to regulate the earnings of capital? If capital be guaranteed, its hire can be fixed, but if hired "for better or for worse" it is not possible to foretell the risks to be run and the adequate payment for those risks.

If, therefore, it is most undesirable to impose maximum rates of profit is there no other way of removing the objectionable features of profit? These are twofold. First, untrammelled profit-taking leads to the grossest inequalities in the distribution of wealth. This can be remedied by leaving industry free and grading taxation directly according to the individual's ability to pay. Second, apart from the social inequalities in wealth, profits mean industrial schism because they represent a subtraction from the wages pool. A common, not an antithetical, mode of remuneration of industrial services is the only possible cure, i.e. a wages-plus-profits remuneration for all ranks in industry.

CHAPTER IV

PRODUCTION WITHOUT PROFITS

ALREADY several arrangements are at work in our society by which production is carried on and services rendered without the motive power of personal profit. If it could be proved that such systems are capable of extension wide enough to embrace all industrial life, then the need of considering the merits of profit-sharing would not arise. Each of these systems has its partisans. These advocate the extension of such systems to other and wider fields of productive effort, but we shall see that their nature and their sphere point only to their desirability within narrow limits. Doubtless these limits have not yet been reached and a bright future awaits them but their complete extension to all industrial fields is neither possible nor desirable.

These movements are the co-operative movement, municipalization, and nationalization. In each of these cases there is no incentive of personal gain in the usual sense. There is, of course, the expectation of a surplus, but such expectation is not the motive animating the producers. In each case the only apparent incentive is service to the consumer, and the surplus, which in a joint stock company would be called the profits, is either returned directly in the shape of a dividend to the customers or goes to the Exchequer as an item of revenue.

Since 1844, when the old weaver amid a jeering crowd took down the shutters from the insignificant shop in Toad Lane, Rochdale, the co-operative movement has made enormous strides. Previous attempts at co-operation had indeed been made, but it was the discovery of the "Rochdale plan" that first put the movement on the road to success. This plan aimed at the abolition of "profit

on price" by the distribution among the consumers of periodical dividends in proportion to purchases. That there is at least an essential difference between ordinary profits and co-operative "profits" has been recognized by the State in granting exemption from Income Tax to co-operative enterprises. Even the recent recommendation by the Income Tax Commission that the trading portion of co-operative profits should be subject to taxation admits this difference in exempting that part of the profits which is returnable to the consumers as dividend or discount.

There can be no question as to the great success of the co-operative movement both on its distributive and on its productive sides. As it is the retail stores that capitalize the wholesale and productive establishments (the English and the Scottish Co-operative Wholesale Societies), perhaps the best indication of the progress of the whole movement would be a record of the sales of the English C.W.S.—the larger of the two wholesale societies. In 1865 its total sales amounted to £120,754; subsequent decades showed marked progress.

Year.	*Sales.*
	£
1875	2,247,395
1885	4,793,151
1895	10,141,917
1905	20,785,469
1918	65,167,960

Even allowing for the enormous rise in prices these figures indicate a steady and consistent progress, and signs are not wanting that this progress will be more than maintained in the future. There are indeed many criticisms to be made—mainly with some justification—against the co-operative movement, and the private trader can safely be left to make them. But the main fact remains that, whatever the shortcomings of a movement which has certainly trod on many private interests, its great success is simply indisputable. The critics of the movement

have often been harsh, sometimes justified and seldom disinterested, and have done much to drive the movement in the direction of the Labour Left.

But the point here is that the movement has its limits, and the hope often expressed by ardent enthusiasts in the co-operation movement that its extension to all industry will lead to the formation of a great co-operative commonwealth is quite unjustified. Essentially it is an organization of consumers who buy before they sell and sell before they make. Wherever it is possible to organize consumers a co-operative society can be formed. But this implies that the commodities so consumed are in common use. For instance, it would be difficult, if not impossible, to organize a consumers' co-operative society in engineering, simply because the buyers are scattered all over the globe and they buy very irregularly. Added to these difficulties is the fact that there are limits to the size of an economic unit. And these limits are likely to be narrower in the case of consumers' co-operative societies than they would be in a large standardized business, on account of both the variety of product and the restriction of the market. These considerations lead us to believe that the co-operative movement can never spread to all industry and that so far production for profit must remain.

Workers' Productive Associations.

Allied to the Consumers' Co-operative Societies are the Productive Associations of Workers. The number of these latter societies in Britain has declined from 125 in 1904 to 76 in 1918. In these societies the workers and customers largely own the concern and work is carried on under the direction of a manager and committee elected by them, and any profits accruing are distributed as the members may decide. The membership of these associations is, however, by no means entirely confined to the workers employed by them, as a considerable portion of

the capital is owned by their customers—the retail distributive societies—and these appoint delegates to the management committees. Indeed these societies are very far from realizing the ideal of a self-governing workshop. Only in the case of 23 of these societies do employees form the majority of the managing committee, and of these 16 are engaged in the manufacture of boots and shoes. In the case of the Agricultural Productive Societies the same is true, and in few cases are the employees either members or represented on the committees of management.

The above societies were in the great majority of cases initiated by working-men, but there are certain cases where private businesses have assumed this form. Such businesses began in the ordinary way as private concerns, but by the admission of the workers to a share in the profits, capital, control, and responsibility, they have in time become indistinguishable from productive co-operative societies. Four of the most celebrated cases of profit-sharing on the Continent belong to this class. They are Leclaire (now Brugniot, Cros & Co.), Paris; Messrs. Laroche-Joubert & Co., Angoulême; Godin & Co. (now Colin & Co.), Guise; and the Bon Marché (Maison Aristide Boucicaut), Paris. In these cases the workers occupy practically the same position as they do in the self-governing Workmen's Productive Societies. In Britain the best-known example of this is William Thomson & Sons, Ltd., woollen and worsted manufacturers, Huddersfield. Two other cases existed in the past, but both businesses have been liquidated, namely, Haslemere Builders, Ltd., Surrey; and Brownfield's Guild Pottery Society, Ltd., Staffordshire.

The main position is clear. While associations of consumers have succeeded as productive agents, similar associations of producers have not attained any great success as economic units. The great majority of such societies as have survived the high infantile mortality among them have tended to become either consumers'

co-operative societies or ordinary capitalistic undertakings. This method, then, of dispensing with profits has not succeeded in forging ahead in the economic struggle. When the air is full of talk about democracy in industry this fact should be weighed in the balance. These societies have failed mainly on the side of management and discipline. This is specially serious, because in a last analysis skill in management must remain the ultimate economic test of organization, as it is a dominating factor in the fixing of prices, the deciding of profits, and the general efficiency of production.

Nationalization.

The other method of carrying on production without the help of profit-taking by outside owners of capital is that of handing over industry to the control of the State. In this case, even if a surplus accrues, this is not private profit and no question arises as to its apportionment between capital and labour. Can nationalization be extended to all branches of industry? If it can, is it desirable from the point of view of the public weal that it should? If both these questions be answered in the affirmative no further need exists of discussing the question of profit-sharing, as profit itself will be abolished.

There is no question but that certain industries and services like mining, shipping, banking, insurance, and railways could be nationalized. From a purely theoretical point of view great economic advantages could be shown to accrue, but in deciding the practical question various other considerations must be taken into account. These are concerned with the reputation the State has earned as a business administrator. And such thoughts born of the experiences of war years may well cause us to doubt. But in whatever way we decide this question relating to particular industries and services, it remains true that the vast majority of industrial enterprises can be carried on efficiently only under private management. It is in the

recognition of this fact that Guild Socialism finds its peculiar strength. State Socialism or bureaucratic administration will not succeed in general business, and the substitution for it of state ownership plus the control of local workers' committees is certainly a move in the proper direction.

But much still remains to be done before this can ever become a reality, and the greatest obstacle in the way of its attainment is the general unfitness of labour to perform the task to which it is said to aspire. For it is a peculiarity at which posterity may well wonder that the contemporaries of to-day, living together on a little sea-girt island, under a democratic constitution, yet are worlds asunder in mental equipment. There may with reason be some doubt as to the fitness of the present captains of industry to steer the industrial ship but there can be no doubt as to the unfitness of the crew. This need not always be so, but the process of becoming fit to assume the new functions implies a prolonged period of learning by education and experience. It can safely be assumed that if, by a revolution, all industrial property were confiscated, industry would swing back to its former organization and the ultimate orientation of control would remain much as at present. With the mass of labour as ignorant as it is to-day, the only hope is leadership, and no change in control can alter this necessity.

If, then, there can be no immediate realization of a dream which takes for granted more than the actual realities of the situation, is there any hope of solving the industrial problem by calling in bureaucracy? There is not; the machinery of State management is too clumsy, slow, and inelastic, and decentralization calls on forces which are not educated for the burden. As with nationalization so with municipalization. There are certain necessary social services of a monopoly character which lend themselves to local control. Probably in this sphere, too, there are extensions which could be made, but only up to a point.

Thus we are left with the greatest and most fertile fields of industry as the realm of the private manufacturer. Only, it appears, when these are watered by the gentle rain of profits, will they produce the harvest. The enclosed fields around the towns may yield a rich crop to the co-operative consumers who tend them. There may also be certain areas in which municipal enterprise yields the best results. But the stiff stubble land in the open must remain the happy hunting ground of the commercial adv nturer keen on risk in the hope of gain, and the best that can be done is to devise some scheme of prosperity-sharing whereby his hired men may benefit by their skilfully applied labour.

Summary.

The alternatives to the so-called "capitalistic production" are, broadly speaking, co-operation or nationalization. The co-operative movement is an organization of consumers and has made very great progress. But it is impossible for consumers to organize production in every line of industry and this cardinal fact necessarily limits the sphere to which co-operation can be applied.

Co-operative societies of producers have been much less successful than similar societies of consumers. They have not been able to withstand the buffets of economic storms, because they have often been manned by a poor captain and an unruly crew. They have proved themselves weak both in management and discipline. Thus in the main it is true to say that the bright hopes that were entertained about fifty years ago for this form of co-operative enterprise have fallen far short of realization.

Public ownership and control of all the factors of production, while theoretically from some points of view a good thing, has in actual practice almost invariably proved a bad one. If, however, instead of nationalizing we socialize industry, that is, substitute joint decentralized control for bureaucratic administration, the argument

is undoubtedly strengthened. But the workers must climb into their new status and not usurp it. And to this end social and economic education should be advanced among the rank and file, who will then be enabled to matriculate in the school of industrial democracy and to pursue their studies in control through Whitley Councils and in ownership through co-partnership and capital-sharing, finally graduating as complete partners in industry.

CHAPTER V

THE REMUNERATION OF LABOUR

INDUSTRY exists to satisfy human wants. But these wants are effective in promoting industry only in so far as they are transmuted into the person of a buyer who offers to purchase what satisfies these wants at a price. Human needs and desires are practically insatiable and by education can be modified, increased and transplanted to a higher plane. Such desires are, however, not of much account in the business world unless they can be translated into terms of hard cash. It is this demand which inspires industry. And the most characteristic feature of this demand is its extreme unreliability. It varies from time to time, from industry to industry, sometimes capriciously ceasing altogether and preferring some new attraction, as in the domain of fashion and luxury commodities.

The pace of industry is determined by this unsettling element. Industry prospers most continuously when it follows most closely the manoeuvres of demand. To do so it must assume some of the qualities of demand, it must be mobile, adaptable, and elastic. Price is the harness that yokes the two together and the more capable of variation price is, the more are the two likely to keep equal pace. Now the elements in price are many and variable. Some of them are wages, cost of raw materials, taxation, overhead costs, selling costs and profits. The two chief are normally wages (including salaries) and the cost of materials, which again largely depends on wages. If these two are elastic, industry will be enabled to follow demand and live and prosper. When industry has failed in adaptability in the past it has meant loss of profits and often insolvency to the employer and either unemployment or reduced wages to labour. If we do not take steps to meet the fluctuations of demand we have simply to suffer the consequent dislocation.

Now a fixed, rigid standard rate of wages means so far an inelasticity in cost of production. It limits the extent to which price can vary in order to meet demand. The building trade from 1909–14 was very much depressed. Demand had practically disappeared, profits were at zero, wages remained rigid and unemployment was common. If it had been possible to reduce wages and build cheaper houses it is certain that demand would have been stimulated and the trade busy. As it is, the war added other five lean years to a long period of depression and consequently the building boom confidently anticipated for 1917 was further postponed with the disastrous consequences we see to-day. The point here is that it is very desirable to introduce as much adaptability as possible into the supply of utilities.

Time wages still further unsettle the costs of production. They bear no relation to work done and consequently introduce into price an arbitrary and incalculable element which makes it quite impossible to follow the ups and downs of demand. Time spent in the works or at the job is paid for almost irrespective of the service rendered and it simply means that the employer discharges as soon as possible the less capable man. It gives no incentive to produce, it takes no account of greater skill or harder work, and gives no inducement to the development of individuality.

It has always seemed strange to the writer to hear the arguments advanced against any tax on industry or any governmental interference with its control. The strangeness consists in the fact that the same argument applied to labour carries with it a logical deduction not infrequently opposed by those who use it. If profits are taxed the employer will have less inducement to further enterprise. The bureaucratic official in charge of a national undertaking having only a fixed salary will take no risks and as little responsibility as possible. Surely the idea behind this is that the manager or employer must be paid in proportion to the services he renders, otherwise his efficiency suffers.

These same arguments applied to labour surely urge the necessity of remunerating the worker according to his actual production.

Further than this, if labour is to be given the fullest incentive to produce it must be allowed some of that freedom which is claimed as the crowning merit of private enterprise. Mutual co-operation and responsibility for the fixing of piece-rates must take the place of autocratic administration. Instead of being asked merely to accept and obey, the worker must be invited in the first instance to formulate and discuss. Also there can be no freedom until the perpetual dread of unemployment which overshadows the worker's life be removed.

From almost every point of view some system of payment by results is preferable to a flat day-rate system. Such systems may take as the producing unit either the individual or a gang. Where both are equally possible there can be no doubt as to which is the more desirable. Where individual output can be measured payment accordingly is more conducive to effort than team piecework. In the case of the latter there are two questions involved: first, the determination of the output bonus rate, and, second, the subdivision of this bonus among the individual members of the team. Individual piecework tackles the latter question directly and is therefore not troubled with the former. Inequalities as between members of the team are directly calculated and one frequent cause of dissatisfaction does not exist.[1]

Exceptions to Payment by Results.

But there are cases where it seems impossible to apply any system of payment by results, apart altogether from the present opposition of British labour to such systems. Doubtless the continued advances made in mass production, standardization and specialization will in the future enable exact measurements to be made of work which at present

[1] This question is treated in more detail in Chapter XVI.

defies calculation. Conditions unfavourable to the application of a system of payment by results exist where different shifts are employed on the same work, as in soap works, where vats are kept boiling for a number of days. Again, where a great variety of different grades of workers are employed on different, unmeasurable services, as in the gas and electricity industry, in which case it is impossible to distinguish the several contributions of the various classes of workers ranging from stokers to meter readers. This fact, among others, explains why profit-sharing has achieved its greatest success in gas undertakings, while in other industries only a very small number of firms have adopted any form of profit-sharing.

Apart from the fact that the conditions in certain industries render payment by results inapplicable, there are certain classes of workers in industry whose contributions to the final product are by their very nature incapable of definite measurement. Such men as exercise supervisory functions, from the general manager to the foreman, obviously cannot be paid on a piece-work basis. The one exception to this is the sales manager and his staff. The others—managers, employment-men, welfare workers, buyers, credit and accounting staff, research staff, advertisement experts—obviously cannot have their individual contributions measured. Their services to the business consist in the exercise of judgment in co-ordinating the various activities of the undertaking and in exercising discretion when occasion arises. The work they perform is not fixed; it constantly varies and requires frequent adjustments to new conditions and problems. Being the organization of the whole, it cannot be severed and distinguished into the respective individual contributions. As their activities directly affect the profit that will accrue to the business, a scheme of profit-sharing is particularly applicable as being in reality the nearest approach possible to a system of payment by results.

Still another class of workers cannot have their products

definitely measured, though for a different reason from that which applies to the managerial staffs, i.e. where work cannot be readily supervised because the worker has to go to the job instead of the job coming to the worker. To this class the two industries belong which employ in Britain the largest number of workers. Agriculture and building, the two primitive industries, cannot readily have any system of payment by individual results applied. The product is merged in the whole, the work is not standardized, it is carried on in various places at different times and supervision is difficult. Certain exceptions to this exist, especially in the case of bricklaying, but these are not important. In the main, these industries have escaped by their very nature most of the movements associated with the Industrial Revolution, and cannot as a consequence have systems which these movements encouraged readily adapted to them. This applies also to the repairing trades, to delivery men, and in general to unskilled labourers.

Objections to Payment by Results.

With these exceptions, it is possible to pay labour according to individual effort. Where the alternate methods of profit-sharing and payment by results are equally possible, there is no doubt that the latter conduces more to individual efficiency. But payment by results has a great many enemies, not all of whom are among the employees. Employers frequently complain that on any piece-work system there is a tendency to neglect the quality of work. The worker is concerned with quantity produced, not with conserving tools and materials and producing work of a high standard. Close supervision is necessary, with consequent increase of expenditure in order to counteract this tendency. But the greatest opposition comes from the side of the workers, who maintain that any scheme which differentiates between the capacities of different men tends to destroy the co-operative spirit

in a works, and outside it breaks up the solidarity of labour organizations. Again it leads to over-speeding labour; the worker, knowing that the contents of his pay envelope depend directly on his effort, will strain himself by attempting, perhaps, as in some known cases, to work during his dinner-hour. Even where the desired end is attained and the worker produces his maximum output and earns high wages, there is always the danger that the employer will cut the rate. This he can do quite readily by making some insignificant change in the process and using that as an excuse for revising the standard.'

These are strong objections and have led more than one trade union to reject entirely any system of piece-work. The position in Britain to-day is entirely anomalous. In some strongly organized industries payment by the piece is enforced by the trade unions. This is the case among the cotton operatives, the coal-miners, the boot and shoe operatives, the glass workers, the steel smelters, the tailors, and the lace makers. On the other hand, the Amalgamated Society of Carpenters, Cabinetmakers and Joiners (now merged in the Amalgamated Society of Woodworkers), the United Pattern Makers, the National Amalgamated Furnishing Trades Association, the Piano Workers Union (and recently the newly formed Amalgamated Engineering Union, composed of eleven unions, of which the A.S.E. was the best known) have all rejected the principle of payment by results. In an extremely drastic circular issued early in 1920 by the first named society, it defines payment by results as any system by which bonuses are given, whether these are termed "time keeping bonuses," "merit bonuses," or sums of money paid at the end of the week in addition to the amount of hourly wages earned. It is not permissible for its members to accept any kind of bonus, and district officials of the union are urged to be on the watch and to take drastic steps under the rules against offending members. The Furnishing Trades Association and the Piano Workers

Union recently demanded the abolition of payment by results. The A.E.U., in a ballot they took on this question in April, 1920, voted strongly against it. It would not be true to say that these unions are utterly opposed to the principle. In the main their objection to it is concerned with what to a large extent is simply the machinery of its application. And again the employers in some cases have made the acceptance of payment by results the condition of the consideration of other grievances relating to overtime, Sunday labour, and various working conditions, including the 44-hour week, while certain employees urge the necessity of a guarantee against unemployment as a preliminary to agreement. In short, the question of payment by results has become a weapon of policy and is not at present being judged solely on its merits. The vexed question of trade union administration, particularly the scope and power of the District Committee, is also complicating the problem. Employers as a rule are insisting that any firm which can agree upon a system of payment with its own workmen shall be free to introduce it, subject only to very broad safeguards introduced into the national agreement. This means that the power of the District Committee, which has hitherto been the normal unit for the regulation of working conditions, including payment by results, would be greatly undermined.

This official opposition does not mean, however, that the system is not in vogue. The curious position exists that whereas payment by results in one form or another has the assent of the workers in practice, they are not prepared to vote as a body in its favour. A great many of the A.E.U. members work under some piece-work system, but voting as a union they condemned it by a four-to-one majority. This anomalous position can remain only as long as the attendant circumstances remain a matter of dispute. In striking contrast to these unions is the recent action of the General Workers' Federation. At a meeting in London in March, 1920, the National Conference of the unions affiliated

to the National Federation of General Workers agreed to recommend the adoption of the principle of payment by results in the shipbuilding and engineering industries. Thus from the present-day trade union point of view it is still a matter in dispute. In Germany to-day it is being urged by economic thinkers as the necessary prelude to a trade revival.

That a system of payment by results accompanied by safeguards resting upon a fair and carefully ascertained basic rate, whereby the worker is compensated for his direct contribution to output, will prove more advantageous than any participation in the profits of the business as a whole hardly need be stated. It is almost self-evident that when each man knows he is paid according to his personal efficiency, regardless of the output of others or the profit made by his firm, he is getting the strongest possible inducement to produce his maximum. If he gets a share in the profit this does not obviate the necessity of considering the same question. What proportion of the profit is each worker to get? If he is paid on a time basis and he gets the same share as others there is little or no inducement to produce more. Merit or desert must be considered in any equitable scheme in any case and payment strictly according to this must in the long run be the fairer method.

Much of the constant bickering that arises over the fixing of prices, sundries, working-out, determination of standard times and such like is due to the fact that attempts are made to fix standard times and rates before the process itself has been standardized. The first necessity is to study the process, not merely from the point of view of the time actually taken to perform it under the conditions of the moment, but to investigate the elements involved in it, to determine the best method of doing the work most rapidly and with least effort, and on the basis of these standardized and therefore predetermined and normal conditions to fix a rate or a time that can stand

until some radical alteration takes place. Only when this is done will the rate-fixer's job be put on a permanent and scientific basis.

Summary.

Industry exists to satisfy effective demand. But demand, as human wants, varies greatly and much more so does effective or economic demand. Price is the point at which demand and supply meet and unless it adapts itself to the many convolutions of demand dislocation is certain. Supply costs determine supply price and the chief of these costs is the wages paid for labour. Output and labour can be knit together only by a piece-work system. This stabilizes charges much as the sliding scale stabilizes real wages, the one fixes labour costs and the other purchasing power.

Certain occupations by their very nature are unsuited for a system of payment by results. Where work is mental rather than manual, where it is continuous or exceedingly varied, or where supervision is difficult, conditions unfavourable to calculability exist.

Employers have taken the lead in advocating the extension of payment by results. This is due to the fact that it is always to the employer's interest to increase the output from the given labour-hours for which he pays. To decrease output he reduces his labour-hours by dismissal or short time. But increased output per hour worked may or may not be to the immediate interest of the worker as producer; it must always be to the interest of the consumer. Hence the public and the employer may find their interests ranged against those of the wage-earner.

Rate-cutting, over-speeding, the fixing of unjust standards, poor quality of work, neglect of economy, and the disintegrating effects on trade unionism are all incidental objections, and can be obviated by a scientific analysis of processes, accurate rate-fixing, proper supervision and

adequate bonuses for economy, and above all joint responsibility for the price schedule. The effect of payment by results on the immediate demand for labour only adds still another reason for the settlement of the crucial question of unemployment, on the solution of which depends, to a great extent, our whole economic future.

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PART II—PROFIT-SHARING

CHAPTER VI

GENERAL CONSIDERATIONS

PROFIT-SHARING is a term of very varying significance. Normally the profit a business makes is divided out among a great number of individuals. One of the difficulties in defining profit-sharing is that the term "profit" has no universally accepted meaning. The main necessity for our purpose is to get a clear definition, and to work from that as basis. Profit is that surplus which remains over after all working expenses (including wages, salaries and allowance for depreciation) have been met. It therefore includes interest on capital, allowance for reserve, contributions to the national exchequer and dividends to shareholders. With the exception of that portion of profit which goes to the State in taxation the whole surplus is, under the typical present-day arrangement, credited to the shareholders.

Consumers share in profits only through the State. Owners of capital receive their quota, and the proposal under profit-sharing is that the workers "by hand or brain" should also receive a share. Now the terms under which this third party is admitted to a share in profits may differ greatly. The source from which the claim is made, or alternatively the parties who propose to extend the privilege, may be either the State or the directors acting for the shareholders. Although bills have been introduced and many private individuals have advocated State encouragement for profit-sharing, nothing has yet been done in this connection. Nor, on the other hand, have any trade union organizations demanded the introduction of a system of profit-sharing. Trade union leaders

have indeed demanded for their members a share of the profits, but they have always preferred it in the form of increased wages. When profit-sharing has been suggested to them they have usually been apathetic and critical, and not infrequently bitterly opposed to its introduction.

At a time when labour is inclined to look every gift horse in the mouth it is surprising how many profit-sharing schemes are still coming into existence. Even the much more direct system of payment by results is officially opposed by many unions, however much permitted and even welcomed by workers as private individuals. The promoters of profit-sharing schemes are almost invariably the employers of labour, and this fact is significant. It is significant for our immediate purpose in that it means that the employer usually shares his profits with his workmen in terms which he himself dictates. As the employer proposes the scheme he has the first chance of moulding it.

There are two clear and distinct ways of sharing profits. The first method is "according to profits," the second is simply "out of profits." In the first case the extent of the workman's share depends on the amount of profit earned in the business; in the second it does not. In the first case the worker assumes the position of a junior partner in so far as his total remuneration depends on what the business earns. He not only shares in the profit, but his share is directly determined by the total amount of profit. In the second case the worker receives over and above his normal wages an arbitrary sum which bears no direct or known relationship to profits. This sum is arbitrary only from the lack of any fixed proportion it bears to total profits; it may or may not be arbitrary from the point of view of other items such as output or sales.

Only where the worker's share is determined by direct relationship to the profits earned by the business in which he is engaged does the scheme come under the technical designation of profit-sharing. This may be defined as "an agreement between employers and employed by which

the majority of the employees receive, in addition to their wages, a predetermined share of the profits realized by the business in which they are engaged." In all cases it is assumed that the workers first receive the full weekly wages of their grade and craft and that the share of profits is an additional portion of their total remuneration. Second, a specific agreement is implied, but this agreement may bind only the employer and imply no specific obligation on the part of the workers. This agreement may not be legally executed but may simply be morally binding.

Again, if only a few of the heads of departments receive a bonus according to profits, it cannot be said that the firm has a plan of profit-sharing with its employees. To admit as profit-sharing every case where a firm gives to anyone outside the owners of the business a share in profits would be to include a kind of scheme which has no upper limit. The question would be "Is the particular manager who receives this profit bonus (possibly in shares) an owner or merely a paid employee?" It becomes necessary, therefore, to fix some limit. A special committee of the International Congress on Profit-sharing fixed this limit at "not less than 75 per cent of the employees." The United States Bureau of Labour Statistics, apparently thinking this too high, lays it down as one of the essential features of a profit-sharing plan that its "benefits must extend to at least one-third of the total employed and include employees in occupations other than executive and clerical." If less than one-third come within the benefits of the scheme it is called limited profit-sharing. While it is neither possible nor desirable to lay down any exact percentage it can be stated generally that at least the majority of the total employed must be eligible for benefits. Less than this number may actually benefit through non-fulfilment of some necessary condition, but at least the majority must be open to benefit under its conditions.

Sharing out of profits may take a great variety of forms. It may be a bonus on output, a commission on sales,

a bonus on quality of output, or on savings effected in production. In short, any remuneration the worker receives over and above his wages must ultimately be a charge on profits. It is true that under such a system the fact that the worker shares in profits may itself cause these profits to rise so that ultimately the worker receives only what he makes or a portion thereof. This is true also of bonuses on output, whether calculated on individual or team output, but in this case he is paid not in accordance with the profit finally realized but in some proportion to the effect his extra production is expected to make on the profits. In the case of output bonus schemes the worker first contributes to the output and is then paid in accordance with his extra contribution, while in the case of profit-sharing he first contributes to the profit and is then paid a certain portion of the profit realized.

These two methods of remuneration are quite distinct and appeal to different human motives, and can therefore be treated separately. In the first place we shall take up profit-sharing as it has been defined and consider its advantages and disadvantages.

The Evolution of the Idea.

The idea of profit-sharing is of course a very old one, dating from the time when produce-sharing was practised in agriculture, fishing, and mining. Relics of this former method still survive in the share of produce often granted to the workers in these industries. But the modern development of large-scale production and the separation of employments has rendered it impossible of extension, as the goods produced by most industrial workers are useless for direct consumption. This specialization of function, with the consequent growth in size of the industrial unit, has meant the depersonalization of industry. Interests as well as employments have been narrowed, concentrated, specialized and distinguished so that capital and labour each engaged in the same social function of ministering

to material needs have come to regard their interests as in opposition and each to claim a larger share in the common proceeds of production. Some means of identifying their interests must be sought. It is to fill this ever-widening gap that profit-sharing schemes have come into being.

The idea of profit-sharing was recognized almost at the birth of the Industrial Revolution. For instance, Turgot in 1775 promulgated the idea, and it is claimed that as early as 1795 a scheme was introduced into the Pennsylvania Glass Works, New Geneva, by Albert Gallatin, who afterwards became Secretary to the Treasury. There were certainly experiments along the lines of profit-sharing in England in the early part of the nineteenth century. The Irish Owenite Community at Ralahine, Lord Wallscourt on his Irish estate, and Mr. John Gurdon, of Assington Hall, Norfolk, all practised some form of gain-sharing among their employees. But apart from these early and more or less confused cases, there is no doubt that Leclaire merits his title of "the father of profit-sharing." The other outstanding schemes of historical importance are those of Henry Briggs, Sons & Company, Godin's Iron Foundry at Guise, and the South Metropolitan Gas Company.

There seems to be a close connection between periods of industrial unrest and the inauguration of profit-sharing schemes. In periods of industrial unrest, when employment is bad, labour agitation naturally concerns itself more with wages than profits. It would seem that allied to the condition of unrest must be a time of good trade when employment is good and profits are abnormal. During the period of industrial upheaval from 1889–92, both in this country and in America we find a great extension of this movement. Again during the years 1912–14 we have another recrudescence. It died down during the war but since the armistice a great number of new profit-sharing schemes have been introduced. On previous occasions

when trade became quieter and employment fluctuated the movement lost its vitality and many of the schemes vanished, and to-day we see the same features recurring.

The Criterion of Success.

In estimating the degree of success of any scheme two things must be kept in mind. First, much depends on what it was designed to do. A multitude of reasons have been given at different times for starting such a scheme: some selfish, others unselfish, some hypocritical and some genuine. Many schemes have been designed merely to increase profits, while others have been no more than devices for disbursing "conscience money." Whether any particular plan has been successful or not must depend on the purpose of its introducer, and whether it is to be commended or not depends on whether that purpose was a good or a bad one. Second, certain of these schemes which may have succeeded in the past under particular industrial conditions may fail miserably in the present under totally different circumstances. Chief among these industrial conditions is the attitude of labour, its degree of education, its political and economic power, the extent of its class-consciousness and the special direction of its aspirations. These considerations have all to be taken into account in deciding how far particular schemes have been successful. For it is not enough simply to show that the plan is still in operation to prove it has succeeded. It is no proof that Mr. Jones has succeeded simply because he is alive at 70; he may only have succeeded in living and failed utterly in every purpose he affected.

In judging of the success of any scheme it must always be kept in mind that the great mass of men will follow a strong lead. Some schemes have been eminently successful just because their initiators were men of strong and attractive character who could have got their employees to follow them with enthusiasm in almost any direction. It is, therefore, necessary to separate as far as possible the plan

from its architect and to judge the former on its intrinsic merits and not on the reputation of its creator.

In the year 1919 there were, in Britain, trade disputes to the number of 1,413, involving 2,500,000 people and the loss of 34,500,000 working days. In 1920 trade disputes numbered 1,715, involving 2,000,000 workpeople and the loss of 27,000,000 working days. There is therefore clear evidence to convince us that industrial unrest is a very real thing. Coincident with this we have the usual crop of palliatives in the shape of gain-sharing schemes. There is, as already remarked, a causal relation between them. Attempts at profit-sharing are often planned with the specific intent of curing the industrial trouble. Sometimes an annual cash share of profits is given in the hope of placating labour. Nothing more futile could be imagined. Profit-sharing can never be a substitute for good wages, or healthy conditions, or shorter hours, or a share in the control of industry. The aspirations of labour are to reduce or regulate profit rather than to share it. It aspires to introduce democracy into industry, to stabilize wages and employment, to gain freedom and to consolidate its power through its trade unions. Cash profit-sharing by itself militates against them all. It makes the worker more dependent on his employer, the *direct* labour charges are often not 35 per cent of the total cost of the product, and in consequence 65 per cent of the cost, the selling price, and the profit is determined by the work of others. Thus labour has simply to accept the statement of its employer that the profit was so much and this much to the extent of 65 per cent was beyond the control of labour. It depended on the firm's shareholders, the directors, the general manager, the secretary, the works' managers, the departmental managers, the superintendents, the foremen, the charge hands, the buyers, sellers, travellers, and agents, and on the general fluctuations of trade which are beyond control. Thus labour becomes dependent for its total

returns on its superiors and we are further than ever from a state of industrial democracy. This criticism rightly conceived does not mean that all profit-sharing schemes are futile, but only that no employer need hope to cure the disease of industrial discontent by the introduction of a profit-sharing scheme. Industrial unrest is not merely a question of wages; it is probably more a question of status and control, and extra remuneration in whatever form is not a fit cure for the trouble. It may and probably will be, once the larger question is settled, a necessary corollary of the new orientation of control, but taken alone (and this is the present point) it is useless for the purpose of settling the industrial problem.

Again, remuneration fluctuates more than ever as it follows the fortunes of the business. This is most upsetting where the income is small and the needs and desires undeveloped. The man who lives near the poverty line for the greater part of his life is demoralized if he gets suddenly more than usual and starved if he gets less. To put it another way, money to the average manual worker is effective only so far as required to provide for the needs of himself and family. Beyond this point it fails to exert any great influence. Generally speaking he does not save, his desires are inelastic and rigid, his pleasures are few and inexpensive. He has never had anything to spend except on necessities—food, clothing, and a house—and once these wants are satisfied he is rather at a loss to know what to do with any balance. That is why it often happens that the higher a man's wages the less he works. The reward equal to his work but greater than his needs tends to make him slow down and eventually leave off. Money is only useful for what it can buy, only a miser values it for its own sake, and the worker having no experience in buying because he has no cultivated tastes to direct his buying, cannot spend his money and consequently may be pardoned for thinking himself just as well off without it.

Undoubtedly one of the great social tasks of the future

is to stimulate new desires on the part of the worker. Already the worker has demanded and been granted a shorter working week. The significant fact here has been the point he emphasized in making his claim. He has not asked so much for more leisure to develop himself as simply for fewer hours of work. Of course each implies the other, but the point is full of significance. If the chief claim of labour had been for positive freedom from the shackles of routine we should have no need to question whether he would make the fullest and highest use of his leisure. His claim has been to work less, not to develop more. The present position is therefore critical. On whether social agencies, educational or religious, induce the worker to invest his leisure, or fail and allow him to squander it, depends to a great degree the future prosperity of the race.

These arguments apply equally to the stimulus exerted on the worker by a high weekly wage, but when you consider the nature of profit-sharing with its deferred payments, annually or semi-annually, these arguments carry their greatest weight. All real profit-sharing implies deferred payment and the bait of a possible £10 gift at the end of twelve months has very little attraction for the ordinary man. In 90 per cent of the cases it will not influence his action during the intervening eleven months by one iota, and in the remaining cases he will probably consider that the bonus could well be added to his weekly wage.

Cash profit-sharing is therefore no panacea for industrial discontent. It does nothing to improve the status of labour. Judged by itself it simply means the possibility to the worker of a varying, uncertain, problematic, deferred, uncontrolled extra to his ordinary remuneration. As commonly in operation it first safeguards the interests of the ordinary shareholders and does not improve the position of the worker as a mere incidental employee. It does nothing significant to remove the ever-obvious, thought-provoking contrast between the rich and the poor. It seeks

merely to grant spasmodic doles to the poor after the rich have been guaranteed their returns. The worker cannot feel he has nobly earned it because to the extent of about three-fourths it has been made by others, and to the remaining extent is a common contribution to which his individual efforts were merely an insignificant and incalculable item of assistance.

Summary.

A share in profits has always been an offer by employers rather than a claim by trade unionists. The initiative has come from capital and the criticism from labour. The share may be in direct proportion to profits or simply a gift, or again in relation to some contributory item to profits as output, sales, prices, or economy. The technical definition of profit-sharing limits it to the former, but in the popular mind the term is associated with almost every system, apart from payment by individual results, which increases the remuneration of labour.

The older forms of produce-sharing were dependent on the fact that the produce was immediately consumable by the man who produced it. Modern industry prevents this by separating maker and user, employer and employee. This follows as a logical necessity from the very nature of the capitalist system. The bitterest present-day antagonism is between employer and worker; with the solution of this problem the second antagonism between maker and user may arise, but meantime the more urgent question is how to bridge the gap between capital and labour. Profit-sharing schemes arise in proportion to the acuteness of this question and the absence of the severe practical problem of unemployment.

In estimating the success of any profit-sharing scheme regard must be had to the purpose for which it was introduced, and to the circumstances of its birth and particularly its parentage. It may be stated quite definitely that a mere system of cash profit-sharing never

yet cured industrial unrest. If the worker claims a share in the prosperity of industry he wants it as a regular, assured weekly payment and not as a problematic share of a possible profit. Profits depend on many other factors besides his effort, they fluctuate for reasons beyond his comprehension, and in any case payment is remote and deferred. For these reasons profit-sharing by itself can never be a panacea for industrial unrest.

CHAPTER VII

THE DIVERSE AIMS

Among the different motives that have prompted employers to introduce profit-sharing schemes there is no real principle of agreement. They range from pure altruism to gross egoism. Between the two extremes there lies the hybrid motive of altruistic egoism—where profits are shared with the workers in the expectation of increasing largely the sum total of profit and hence the share accruing to capital. Most innovators have shared and some have realized this hope, and the vast majority of schemes come within this category.

Of the purely altruistic schemes it is not necessary to say much. They come within the sphere of philanthropy rather than of business and usually pass in the process of time into the form of co-operative societies. Perhaps the best example of this is the case of William Thomson & Sons, Ltd., Woollen and Worsted Manufacturers, Huddersfield. In 1886 Mr. George Thomson changed his private business into a society under the Industrial and Provident Societies Act. By the rules he became general manager for life at a fixed salary. After allowing for the usual charges, including a 5 per cent dividend to capital, the profits are divided equally between the employees and the customers as a dividend on wages and a dividend on purchases. Another scheme introduced from equally disinterested motives is that of Messrs. J., T. and J. Taylor, Ltd., Woollen Manufacturers, Batley. In this case the employees in their double capacity as profit-sharers and shareholders draw about three-quarters of the company's profits.

Schemes introduced mainly for obstructionist purposes can similarly be dismissed with a few words. Perhaps

the most celebrated is the case of Henry Briggs, Son & Co., Ltd., of the Whitwood and Methley Collieries in Yorkshire. This scheme was the first and most celebrated of all the earlier English experiments. Its avowed purpose was to crush the growing trade union movement. In this it eventually failed. This scheme stands in a class by itself, because of the purpose that animated it and because of the particularly bitter atmosphere of industrial strife into which it was born. Cases, however, are known where the benefits accruing under a profit-sharing scheme have been set against the possible advantages of trade unions and the employees have been asked to accept the one and reject the other. In these cases the attempt is not so much to crush a trade union as to prevent its extension into the business concerned. For instance, in introducing recently a profit-sharing scheme into his firm the chairman of the directors is reported to have used the following words: "I particularly wish to emphasize the loyal attitude of the staff on the question of trade unionism. As many of you are aware the trade union movement has recently been exceedingly active in our trade, but at a meeting of the staff held a few months since, when I appealed to them to wait at any rate until they knew what the shareholders and directors would be willing to do for them under the scheme now propounded, they unanimously decided so far as the warehouse and counting staff is concerned to refrain from identifying themselves with the trade union movement."

This attitude is to be deplored for every reason. First it jeopardizes the scheme by pitting it against the possible benefits of union organization; second, it rightly alienates organized labour and leads it to suspect the intentions behind other profit-sharing schemes.

The Mixed Motive.

In the business transaction of exchanging, both the giver and the getter expect to gain. That is the essence of a

business deal and the deal is the essence of business. And so it has been in the main with profit-sharing; the employer in parting with a percentage of the profits has expected to gain an equivalent in service. The Labour Bureau of the United States investigated in 1916 all the profit-sharing plans known to be in operation in that country, and of all the employers interviewed only three stated that their primary intention was to divide profits equitably among their employees "as a matter of justice, irrespective altogether of hopes of increased efficiency." In the vast majority of cases, while social and humanitarian considerations have not been absent, they have not been the controlling motive. The equivalent in service has been variously designated. To some it has meant loyalty and goodwill. The giving of a share in profits has been expected to call forth from the workers harder and more concentrated work. This has been expected because it means that the worker is serving his own interests; he is working for higher profits and therefore a bigger share to himself. This he can do in a variety of ways, by harder physical exertion, by greater mental concentration, by more regular time-keeping, by more continuity of service, by greater contentment and interest in his task, by saving materials, tools, machines, light, and generally assisting in cutting down as far as within his power the overhead charges; by showing a good example, by gently stimulating the sluggards, and by the ready adoption of new machines and methods. Hence the total result of increased production for the community, increased return to the shareholders, and increased remuneration to the workers. Such is the picture presented by enthusiasts, and a study of the actual results will show to what a small extent these claims have been realized.

Profit-Sharing and Labour's Status.

So far we have divided the claims of profit-sharing into the positive and the negative. In the latter case its

claim was to solve labour unrest by knitting up the interests of capital and labour in the common pooling of profits. This claim, as we saw, is entirely unfounded, but more than that, it is strictly illogical.

The cure for any disease must have some relation to the cause of that disease. Those who fancy that in profit-sharing we possess an infallible antidote for the present industrial diseases neglect this elementary fact. The root cause of present labour troubles is not money but status. The huge expansion of the business unit and the extensive use of machinery have both tended to destroy personal relationships and consequently to dehumanize industry. The modern developments of industry have separated employer and employed, producer and consumer, and tended to destroy craftsmanship. Modern education and its concomitant developments in class-consciousness, crystallized in political and economic power, have made the worker aware of his needs, insistent on his rights, but hardly yet aware of his obligations. Recognition of these can follow only on the attainment of responsibility. For these ills profit-sharing can provide no remedy, as by itself it confers little or no control. The initiative in the matter of profit-sharing has always come from the side of the employers. To the worker it has appealed mainly as offering extra remuneration, and such unusual procedure on the part of employers as an offer of extra earnings has naturally called forth a certain suspicion in the mind of the labouring man, unaccustomed as he is to receiving offers of increased wages. Labour has never demanded any share in profits except in the form of an addition to its weekly wage, reduced hours, payment for holidays, or some similar concession.

At first sight it might appear that it increases the status of the worker to make him a profit-sharer. But this view is only superficial. A small varying sum in cash given him every year leaves him unmoved, except occasionally to anger. He feels more dependent on the firm

than ever, his responsibility and control over that amount is infinitesimal, his mobility is often interfered with, and his general feeling of being tied to the firm is increased. If the wage system with its uniform standards be bad, he feels that profit-sharing, with its fluctuating management-created bonuses, is still worse.

Again, no profit-sharing cash bonus can ever be acceptable to labour as a substitute for wages or for an increase in wages or for better general conditions. It obviously cannot compensate the worker for arduous, unhealthy surroundings, but it may seem to offer an alternative for a higher weekly wage. If a worker gets, say, £4 10s. a week and, as his profit-sharing bonus, receives three weeks' wages extra per year, this would work out as equivalent to a 5s. 2d. rise per week. But if you offer him the alternatives of £4 15s. per week or £4 10s. plus a profit-sharing bonus, which in his case would probably come to £13 10s. a year, there is no question as to which he will choose. The worker desires an assured income, and however much he may gratify "the sporting instinct" in other directions, he is not prepared to run any risks with his weekly wage. Thus, whether industrial unrest be a question of social prestige or merely a question of the distribution of the national income, no claim can be made for profit-sharing as offering any acceptable solution.

The Positive Claims.

But what of the positive claims? Does profit-sharing increase loyalty, contentment, production, profits, waste-saving and generally develop the team-spirit? It is impossible to answer this question without breaking up profit-sharing into its different varieties. These different varieties have entirely different stimulating power and must be treated separately in estimating their energizing value.

But in passing two provisos must be made. First, it is an entirely erroneous policy to consider the effects on a business of the first few years of a profit-sharing scheme.

The immediate effect may be good and stimulating; the ultimate effect may be deadening and disruptive. Any scheme which promises higher remuneration to the worker is likely to be acceptable for a short time. As long as it is novel it fascinates and stimulates. But after, say, five years, when its working is understood more clearly, when its limits and inevitable inequalities are brought to the surface, the real testing time begins. Taking the technical definition of profit-sharing as an agreement between an employer and the majority of his workpeople under which the latter receive in addition to their wages a share, fixed beforehand, in the profits, we find that there have been in England some 380 such schemes in operation.[1] More than half of these have failed. The total number of profit-sharing schemes known to have been started in the United Kingdom from 1829 to 1900 was 194. Of these only thirty-six were in operation at 31st October, 1919; the remaining 158 had ceased to exist. This is perhaps a truer test of the longevity of such schemes than any consideration of those started since 1900. But a study of the schemes started since then reveals the same tendency. In the five years 1901–5 some twenty-five schemes were started; of these thirteen have now (31st October, 1919) ceased to exist, representing a proportion of existing schemes to total started of 48 per cent. Of the fifty-five started from 1906–10, sixteen are now abandoned, representing 70·9 per cent of survivals. The next five years (1911–15) shows some sixty-two new schemes, and fifty-one survivals, representing 82·3 per cent, while the schemes started from 1916 to 31st October, 1919, numbered forty-four, with 100 per cent survivals. The average duration of the abandoned schemes was rather over eight and a half years, but one-third of them came to an end before the fourth, and one-half of them before the seventh year of the experiment. Of those schemes which survive the average duration (excluding schemes started in 1919) was only about fourteen years.

[1] Ministry of Labour Report, 1920 (Cmd. 544), pages 9–10.

It is not to be assumed that all those that still survive have been successful, while on the other hand it is certain that some of the failures were to be expected. Just as some firms change their form and become public companies when on the verge of collapse, so it is possible that in looking around for any loophole of escape from liquidation firms may have introduced profit-sharing. Facts seem to indicate that the number of such cases is not very considerable, as the total number of schemes which actually failed for financial reasons of all kinds was less than fifty.

Again, in considering the actual survivals, which number about 182, certain important considerations have to be borne in mind. Included in the above number are thirty-six gas companies, and in these cases we have specially favourable conditions. The success of profit-sharing in gas companies is not therefore to be taken in an uncritical way, as indicating similar promise in general industrial concerns. Of the survivals again a certain number have gone far beyond mere profit-sharing and have developed in the direction of workmen's productive societies, through the introduction of co-partnership. In these cases profit-sharing was merely a stage to a much fuller democratization of control.

Again, the mere fact of survival is no proof of success. In many cases where schemes are still in existence employers and workers are very lukewarm in the matter. In reply to inquiries several have said it is impossible to ascertain exact results, others doubt very much whether any zeal in work is promoted. "On the whole we are by no means dissatisfied or discouraged," say Messrs. Clarke, Nickolls & Coombs, London, in reference to the profit-sharing scheme they have had in existence for twenty-nine years. Thus we see that, tested by time, profit-sharing schemes have not justified the rosy expectations of enthusiasts. Nor is it any more likely that the multitude of schemes being introduced at present will find a better fate. But it is

suggested that we suspend our judgment of such schemes till they have been at least five years in operation.

The second proviso is that leadership in industry, as in political, civic or religious life, is an enormous force. Carlyle grimly says that if you hold a barrier in front of one sheep and make it jump over it, the others will make a similar leap though the barrier be withdrawn. And there is a good deal of this in human nature. You may call it personal magnetism, inspiring leadership, hero-worship, or explain it on grounds of suggestion and imitation, but the fact remains that the great mass of humanity will follow unquestioningly a strong lead. Many profit-sharing schemes have succeeded in the hands of such an innovator. Leclaire and Godin were such men, and the great success each attained was a direct tribute to their lofty ideals and inspiring leadership. But the great majority of schemes cannot hope to be fathered by parents of such winning personalities. Such leaders could have led their followers into almost any plan of industrial co-operation, so great was their power, but the success of their schemes is more a tribute to them than a testimonial to the scheme itself. Other schemes are not likely to be so happy in their parents and must be judged on their solid merits and their practical results.

Summary.

Profit-sharing schemes have been introduced to serve very different ends. Sometimes definite harm was intended to organized labour; sometimes, on the other hand, the employer was prepared to sacrifice his own interests to those of his employees. But in the main the profit-sharing scheme was intended to be an ordinary business proposition where both sides expected to gain in the exchange. The employee was to gain additional earnings, the employer greater production and more contented service.

In the previous chapter it was pointed out that profit-sharing offered no solution to the problem of industrial

unrest. It does not, judged by itself, lie in the direction of labour's aspirations. Mere profit-sharing may indeed only further increase the feeling of servility in the ranks of labour. If the worker demands an increase of earnings he invariably wants it in the form of a direct increase of wages and not in the form of an advance which is contingent on possibilities beyond his control.

The immediate and the ultimate effect of a profit-sharing scheme may be very different, and a proper judgment can be formed only after the scheme has definitely completed its trial trip—in this case a matter of at least five years. Statistics show that over half the profit-sharing schemes introduced into businesses in the United Kingdom have failed. A consideration of special reasons for failure and particular conditions favourable to success leaves the general balance of failures untouched.

While practical results do not lead one to believe that profit-sharing schemes are blessed with longevity, this criterion of success may itself be questioned. While the existence of a heavy infantile mortality among such schemes certainly points to weakness, the mere fact of survival does not prove strength. Lastly, success even when attained may be a tribute to the organizing skill of a personality rather than to the soundness of the scheme he originated. All these considerations spell caution before reckoning all survivals as successes.

CHAPTER VIII

ANALYSIS OF SCHEMES

PROFIT-SHARING schemes have almost without exception been planned by employers. As a rule in the past the co-operation of employees has not been invited in their formation. The employer has simply formulated the plan and offered it to the employees, and not infrequently, if they have examined it critically, it has been withdrawn altogether. Normally, however, as it promised an immediate prospect of increased remuneration it has been accepted by the employees concerned. The opposition in the main has come from the organizations behind the employees, and as these trade unions have extended their power schemes of profit-sharing have had to be submitted to them and to meet their criticism before being accepted.

The question of the solidarity of labour is naturally the direct concern of the unions, and examined from this point of view schemes of profit-sharing have been subject to severe criticism and much modification. But in former years it was usual for the employees directly concerned simply to accept the plans made by their employers and to discover only by actual trial their limitations. The diversity of schemes is due largely to this fact. Each individual employer evolved the scheme which best suited his particular business and purpose. In any analysis of profit-sharing schemes the following considerations must be kept distinct—

1. The Nature of the Agreement between Employer and Employed.

2. How the Divisible Profit is arrived at.

3. How this Divisible Profit is divided between Shareholders and Employees.

4. The Conditions the Employees must satisfy to qualify for participation.

The Agreement.

Some profit-sharing schemes are in operation even without the use of printed rules. The agreement between the two parties is similarly nebulous as to the basis on which it rests. Most schemes make no mention at all as to whether the arrangement between the two parties is a legal contract or merely a voluntary obligation. While in a few cases the agreement is legally binding, in other cases it is expressly stated that the employee has no legal claim on the share of profits proposed to be allotted him. In still other cases it is stated that the share of profits is a purely voluntary payment on the part of the employers. No doubt a legal agreement is preferable and it should at the same time be as simple and clear as possible. Every employee should have in his hands a printed copy of the rules and these should be definite and detailed, while at the same time allowing for such contingencies as are likely to arise.

The Divisible Profit.

The profit on which the bonus is calculated is normally the net profit of the year preceding the distribution. In a few cases, however, the half-yearly profit is taken as the basis. In one very recent case it is proposed to make payments to the workers on account for any month which, in the opinion of the management, shows a profit, so that the workers may not have to wait for the semi-annual balance sheet. The divisible profits are arrived at after subtracting, in the case of private firms, the salaries of proprietors and managers and interest on their capital, and in the case of joint stock companies, a certain rate of interest to shareholders. This rate of interest varies enormously, being in one case as low as 2½ per cent and in another as high as 50 per cent. This latter case is that of the Prudential Assurance Company, Limited, where, before any profit is paid to the outside staff, the shareholders get ten shillings on each £1 share, free of Income

Tax. The average guaranteed to shareholders before divisible profits are arrived at is, in the majority of cases, either 5 per cent or 6 per cent. The recent tendency, however, has been to raise this guaranteed rate in conformity with the upward trend of interest rates. Messrs. Tootal, Broadhurst, Lee & Co., Ltd., fixes 7½ per cent as the reserve limit for ordinary shares, Messrs. Bryant & May, Ltd., makes it 8 per cent free of Income Tax, while Wm. Hollins & Company, Ltd., and Achille Serre, Ltd., make it 10 per cent.

Further deduction from the net profits is made in the case of several schemes before the divisible profit is arrived at. Such deductions are usually for reserve funds and depreciation, but in some cases a sum is allotted to a pension or provident fund. The reserve limit is normally fixed as the current rate of interest on first-class securities. This is a first charge on the net profits before any profit-sharing with employees comes into operation. The deduction of sums for reserves, depreciation, etc., before divisible profits are arrived at, while common, is not general, the difficulty being that such sums indirectly benefit the shareholders but not the profit-sharers, hence the possibility of differentiating against the latter by large deductions from profits for these purposes. In practice only 20 per cent of the profit-sharing undertakings in the United Kingdom make such deductions from gross profits before ascertaining divisible profits. This point is likely to become increasingly important in the future as the whole tendency in modern industry is to withhold larger sums of the total balance of profits and to accumulate these as reserves. From being about 21 per cent in 1907, the percentage put to reserves has become in recent years about 35.

Division between Shareholder and Employee.

Many firms in making this division depart from the strict letter of our definition of profit-sharing. Those that come within its scope grant to their employees on

certain stipulated conditions a share of profits definitely determined and announced beforehand. This may be called sharing with fixed quantum and conforms to our definition of profit-sharing. The other method is to give a gratuity or bonus out of profits without previously announcing its relation to the profits earned. It is simply a gift or grant purely at the discretion of the management. This method of sharing out of profits, though not according to profits, is dealt with under the heading of "Gratuity Bonuses."[1]

It is usual for the employees to know what percentage of the divisible profits is allotted to them. This is almost necessary if it be expected that employees will do their best under a profit-sharing scheme to further the interests of the firm. The modern tendency in the United Kingdom is more and more to take the workers into the confidence of the firm and acquaint them with all the details of the proposed scheme, and even, in some modern instances, to invite them to co-operate in its formulation. But in times past it was not even deemed wise in some cases to acquaint the worker with the details of the scheme under which he benefited. In every case of profit-sharing introduced into businesses in the United Kingdom since 1903, and where the schemes still survive, the workers have been with one exception acquainted with the principle of allocation. In schemes introduced before 1903 this was not so common, and some eleven schemes are still in existence where this information is not disclosed. In the case of four of them, however, the calculations involved are certified by an accountant or auditor and this certificate can be examined by employees. Even in cases where the information is open to the workers, such certificates are sometimes provided as additional safeguards.

In the great majority of profit-sharing schemes a fixed percentage varying automatically with profits is allocated to the workers. This percentage is usually calculated on the divisible profits, i.e. profits in excess of the reserve limit,

[1] Cf. Part IV, Chap. XVIII.

but in some cases it is calculated on the total net profits, though actual participation does not begin until the reserve limit is passed. In some cases a fixed scale of percentages varying with the amount of profits is substituted for a fixed proportion of profits. For instance in a scheme introduced very recently (John Howell & Co., Ltd.) the arrangement was—

"That when the profits (after payment of all expenses), as certified by the auditors, exceed £18,000 (representing 6 per cent on the paid-up capital of the company) there shall be credited to 'bonus fund' sums equivalent to—

15%	on the next 2%	(£6,000 or part)	6–8%
25%	"	"	"	8–10%
40%	"	"	"	10–12%
50%	"	"	"	12–14%."

While these attempts to give the workers increasing returns on larger profits show a tendency to become more common, the normal type of scheme is still that in which the bonus is a fixed proportion of the divisible profits. Of those schemes which adopt this method about one-half allot 50 per cent of the surplus above the reserve limit to the employees, but others allot various percentages. In one existing case of profit-sharing this is as low as 2 per cent, but 5, 16⅔, 20, 25, and 33⅓ per cent are also among those given.

Under other schemes an attempt is made to correlate the rewards paid to capital and to labour in a more direct manner. In these cases the plan provides for the allotment of the profit over the reserve limit at the same rate between capital and wages. The essential difference between this and the preceding plan is that the extra allotment to labour over and above wages is determined partly by the amount of wages paid and not entirely by the amount of profit earned. The bonus in such cases is a percentage on wages equal to that earned by capital over and above the reserve limit. But as the relation between capital

employed and wages earned differs enormously in different businesses, a fixed percentage to both, e.g. 5 per cent to wages when 10 per cent is paid to capital (5 per cent being the "reserve limit") would represent entirely different proportions of the whole in different industries, and as a consequence other proportions between the two are sometimes introduced. In one case $2\frac{1}{2}$ per cent is paid to wages for every 1 per cent capital receives over the minimum limit, with an equal percentage division after each has reached 10 per cent, which they do simultaneously with a 6 per cent reserve figure. In still other cases the amount of bonus is a proportion of the total amount available for dividend payment, while in others the bonus is in the form of so many weeks' pay depending on the amount of dividend paid to capital. In a recent case introduced in 1919, a fixed rate of 5 per cent is first paid as bonus on salaries, and when the company pays a cash dividend at the rate of 10 per cent or more on its ordinary capital a further bonus is paid on salaries at the rate by which the dividend paid on such capital exceeds 5 per cent with a maximum of 45 per cent.

The Conditions Attached.

Before an employee can share in the profits earned he has frequently to fulfil certain conditions. These are usually designed to disqualify the casual, irregular employee, and as such, have been open to the charge of being intended to tie the worker to the firm. In the vast majority of cases this charge is entirely unjustified as the conditions imposed are normally very light and exclude only a very small number. The most common qualification is one that states that before being eligible for participation an employee must have been in the service of the firm for a certain minimum period. The normal period specified is either six or twelve months, but in other schemes it is four weeks, three, nine, or eighteen months, two, three, four, four-and-a-quarter and five years. In some cases provision is made

for payment of part of the bonus in the case of employees who have not qualified for full bonus.

In the majority of schemes no minimum age limit for qualification is imposed and in the remaining minority the age limit varies from 18 to 25. The absence of an age qualification is due to the fact that a minimum period of employment serves to some extent the same purpose.

Similarly with regard to membership of a trade union, in the normal case no reference is made as to whether the participant need or need not be a trade union member. This matter is not considered as having any direct bearing on the qualification for participation. But there are exceptions. One recent case has already been quoted where the benefits accruing from a profit-sharing scheme were set against the possible benefits to be derived from membership of a trade union. In still another case employees who belong to a trade union are explicitly excluded from participation. But such cases are quite exceptional and in the vast majority of schemes no reference is made to trade union membership. In one scheme it is obligatory that the employee, before participation, must belong to his union, but even this explicitly favourable attitude is not general.

Conditions relating to the actual performance of work are also often inserted. These are intended to disqualify the exceptionally inefficient workman. The most obvious form of inefficiency is bad timekeeping and this is, as a consequence, the most penalized form of negligence. Many other conditions of a general character are also inserted as excluding the employee from participation. He loses his right if he be found guilty of unsatisfactory conduct, lack of interest in his work, of carelessness with the firm's property, of doing "anything to diminish the profits or damage the reputation of the company," and such like.

These conditions are sometimes embodied in a definite

agreement which the employees are required to sign, but in the majority of cases there is no written statement and the matter is left only to be brought up on the initiative of the management. But whether explicit or implied in almost every case there are certain conditions which must be fulfilled by the employee. He must have "worked regularly and satisfactorily throughout the period," must have "avoided waste of time, materials or money," must not have "divulged the firm's secrets," and so on. Whether these conditions have been fulfilled or not is usually left to the discretion of the management. It is conceivable that unscrupulous employers might use this as an excuse for denying the worker his share of profits. This possible difficulty is sometimes obviated by crediting a special fund with the unallotted profits. In a recent scheme, "the amount allocated to the salaries or wages of those who have been employed less than a year, or whose work has not been regular or satisfactory, will not be paid to them, but will be transferred to a fund which will be used for the benefit of the employees or ex-employees of the company, their widows or dependents, including sick pay, superannuation allowances, pensions, marriage dowries, or other suitable purposes."

Apart from these more or less industrial conditions of participation other schemes exist where, in what may be called a spirit of paternalism, conditions relating to the personal and private life of the individual are imposed. In one scheme where employees under twenty-one receive a half-share of the bonus it is stipulated that they must have been total abstainers and non-smokers during the whole of the preceding year. In still another company of American origin, but with extensive works in Britain, it is laid down that an employee to be eligible must satisfy certain conditions. Strictly speaking, this scheme is not a profit-sharing one, as the employees merely get a weekly addition to their wages out of profits. The conditions attached are, however, sufficiently remarkable to deserve

more detailed mention. The following is a quotation from their "Factory Rules and Instructions."

"Wages are paid for work done, but a share of profits is a gift from the company to those eligible employees—

(*a*) Who are living with and taking care of their wives and families.

(*b*) Who are living clean, sober, and industrious lives, striving to make their homes and their general environment more wholesome.

(*c*) Whose domestic circumstances give evidence of care and attention.

(*d*) Who are thrifty."

The remaining four conditions are of a similar nature and stipulate that the worker must encourage his children to use educational facilities, that his wife must not work for wages, that he must have no outside business interest, and that during the six months probationary period he has made the best use of his wages. The welfare supervisor of the company decides whether or not an employee has qualified for participation.

Such schemes as the above are altogether exceptional. Any attempt to introduce a scheme of this nature would certainly be bitterly opposed by the mass of British labour, which would strongly object to its inquisitorial character. The success of this scheme is due to a combination of very favourable circumstances. The company is exceedingly well organized, the hours of work are short, the wages paid are high, the working conditions are very good, and a well-developed employment department carefully selects the labour to be engaged. Moreover, the greater part of the employees are unskilled and the share they receive out of profits is made more attractive by being paid weekly.

Summary.

The diversity of profit-sharing schemes is accounted for by the fact that business units differ greatly in structure and each particular employer has been left to fashion his

own scheme. The agreement between the two parties may be a legal or a moral one, and if the latter, may be written or unwritten. Annual or semi-annual profits are usually taken as the basis, and divisible profits arrived at after deducting interest on capital and also, in a minority of cases, sums for reserves and depreciation.

The splitting up of divisible profits between shareholders and employees is sometimes done at "the discretion of the management" but the present-day tendency is to acquaint the beneficiaries with the details, or, at least, to guarantee accuracy. Similarly the democratic principle is extending of inviting the co-operation of employees and their organizations in formulating the scheme, and not merely asking their approval after formulation by the management. Amid a great variety of schemes the normal method is to divide one-half of the extra profits over the reserve limit among the employees. In other cases a smaller percentage is given, while in still other cases a sliding scale is used, under which the greater the profit the higher the proportion accruing to labour.

The most common condition attached to participation is a minimum length of service. Normally no condition favourable or unfavourable to trade unionism is insisted on. The worker is, however, expected to do his utmost to further the interests of the firm and, where this is not embodied in a definite agreement, it is normally left to the prerogative of the management, if they think fit, to debar a worker from participating on the grounds of inefficiency. In one or two very exceptional cases the conditions refer to a worker's social rather than his industrial conduct. Where this is so some extra-factory supervision has to be made to ensure compliance with the requirements and this is totally unsuited to the present-day outlook of labour.

CHAPTER IX

METHODS OF APPLICATION

In Britain profit-sharing schemes have been applied to many different kinds of businesses. Counting surviving schemes only, the following are the industries in which they are most prominent. By far the most important of these is the gas industry, as here profit-sharing is almost the normal method of procedure. In every other kind of business a small minority only of existing firms have adopted any form of profit-sharing, and the survivals are less than 50 per cent of the schemes started. In gas undertakings some thirty-six schemes of this kind are in existence and only four have been abandoned. Next in order come merchants, warehousemen, and retail traders, with twenty-five existing schemes, but these are all that survive out of fifty-eight started. The other more important industries are the textile trades, with seventeen schemes, food and drink manufacturing trades with sixteen schemes, engineering and shipbuilding with fourteen, and chemicals (soap, paint, pottery and glass trades) with thirteen schemes. Some of the other industrial undertakings in which profit-sharing exists are agriculture, clothing trades, paper trade, and banking and insurance.

It is interesting to note those industries which have retained most tenaciously the profit-sharing schemes they began. As already remarked, gas undertakings have shown the greatest stability, the next best of any importance being the textile trades. Those industries in which the death rate among profit-sharing schemes has been greatest are agriculture, where only 8/23 (i.e. 8 out of 23 started) have survived, the building trades with 3/14 (and of those three survivals two were started in 1919), the clothing trades with 5/16, mining and quarrying 1/6, and woodworking and furnishing trades 1/10. Two

deductions can be drawn from these facts. First and obviously the more stable an industry, the more stable is any profit-sharing scheme attached to it. The industries with a heavy profit-sharing mortality are all subject to extreme fluctuations, and what may prosper in boom years may not survive the testing periods of depression. This is particularly likely to happen if, as is common, there is no obligation on the part of the profit-sharers to bear any share of the possible losses. Following on this is the second deduction that large-scale industry is a more favourable field for the spread of profit-sharing schemes than is the small business. Building, quarrying, agriculture, and the clothing and woodworking trades are all in general the sphere of " the small man."

But since the war the chief converts to profit-sharing have been the big businesses. A large proportion of the new schemes have been started by well-known public limited companies with large numbers of employees. Some of the most noteworthy schemes started in 1919 have been those of the London County Westminster and Parr's Bank, Ltd., with 4,200 employees; Wm. Gray & Co., Ltd., Shipbuilders, with 5,500 employees; Alfred Hickman, Ltd., Ironmasters; The Distillers Co., Ltd.; Crompton & Co., Ltd., Electrical Engineers; Grout & Co., Ltd., Silk Manufacturers; Tootal, Broadhurst, Lee Co., Ltd., Textile Manufacturers; while others are in course of being initiated by Harper Bean, Ltd., Motor Manufacturers; Donald Campbell & Co., Ltd., East India Produce Merchants; Guardian Assurance Co., Ltd.; The Amalgamated Cotton Mills Trust; and Bryant & May, Ltd. But while the " big businesses " are taking up profit-sharing at the present time it is still true to say that it was the comparatively small firm which in the past was most ready to adopt the profit-sharing principle. Some 30 per cent of the existing schemes are in firms with not more than 100 employees, 23 per cent in firms with between 100 and 250 employees, 27 per cent between 250 and 1,000, and only 20 per cent

of the schemes exist in firms with over 1,000 employees. Of these latter some fifteen of the firms have more than 2,500 employees and six have over 10,000. Some two-thirds of these businesses are (if we exclude gas companies) private firms or companies, the remaining one-third being public limited companies.

Method of Distribution of Bonus.

After the divisible profits have been arrived at and the amount available for profit-sharing has been determined, there still remains the further question of how this profit is to be distributed among the employees. If labour is entitled to £20,000 as its share under the scheme, what method is used to determine how much of this each employee is to get? The most common method is to take the wages earned for the period as the index of what each should receive as his share of profits. This is the normal method where the bonus is in cash, but where it is designed to encourage thrift or definitely to make labour a partner in the firm this method has its disadvantages. The most obvious is that shares are of a certain value and cannot readily be broken up into such fractional sums as a share of profits according to wages might represent. Again no particular encouragement to saving is given if the worker gets merely a lump sum periodically. Consequently to ensure thrift some firms add the employee's share of profits to the deposits he has in an employees' savings fund and they make his share in proportion to the extent of his savings. The most celebrated and extensive scheme of this kind is that of Sir W. G. Armstrong, Whitworth & Co., Ltd.

But the simple method of calculating bonus according to earnings is not without its variations. How are total earnings for the period to be calculated? Are overtime earnings to be included? If some of the workers are on piece rates and some on time rates which basis is to be chosen? If you select the actual earnings irrespective

of the method of wage-payment, you will further differentiate against the time-rate worker the nature of whose work may make it impossible to apply any system of payment by results. Is time lost by sickness to be allowed for? What of working time lost by a general or local strike, or by a lock-out? Any comprehensive scheme must make provision for all these contingencies, or alternatively must set up machinery in the shape of a profit-sharing or co-partnership committee which can decide questions as they arise. The vast majority of firms naturally prefer simplicity to an intricate and complicated calculation of earnings which might be ultimately more just but would certainly be more questioned. And in any case, where the bonus is seldom as much as ten per cent of total earnings, extreme nicety in estimating the latter makes relatively little difference to the amount ultimately received. Thus the common practice seems to be to include all earnings irrespective of the method of wage-payment. But if piece-work be exceptional, such additional earnings are excluded; if overtime be sectional, overtime earnings are omitted; if time lost through sickness be under a yearly maximum allowance no account is taken of it. The general idea adopted is that the simplest method consistent with fairness is the best.

Another principle of bonus division is length of service. This is quite apart from the initial period of service required for qualification. Length of service is very seldom the sole principle of division, as the value of an individual's service to the firm depends very largely on the particular capacity in which he is employed. This capacity is measured roughly by wages earned. And these two taken together are very often the deciding factors in bonus-distribution. In some cases a reduced rate of bonus is paid to employees with less than a certain length of service. In others the discrimination takes the form of a double share for those who have remained over a certain period, say seven years, with the firm. The absence in many cases of any favourable

treatment of long-service employees in the payment of bonus on profits is due to the fact that another arrangement exists for rewarding them. This takes the form of a pension or superannuation scheme, where the amount received on retiring from the company's service is so much per year worked with the company. These schemes exist in many cases where there is no profit-sharing scheme, properly so-called, but where the two exist together it means that length of service is already rewarded and there is no need of any additional award.

A third principle of division is concerned with the individual grade to which the worker belongs. In some cases there is also a sex distinction; for instance, a woman may get one share, a man one and a half shares, and an overlooker two shares. There are, of course, many schemes where only managers and heads of departments get a share of profits, and we shall see later that there is a great deal to be said for such a limitation. But even where a considerable number of the total employees get a share in profits in proportion to wages, it is not unusual to remunerate managers and discretionary employees by some extra share over and above what would accrue to them in virtue of the higher wages they earn. In one scheme only one quarter of the total bonus goes to the workmen and three-quarters to the managers, assistants, clerks, apprentices, and lads.

The fourth and last principle of distribution rests on merit. This while in some respects akin to the former principle is also distinct from it. The grade an employee occupies and his consequent earnings are, or ought to be, an index of his abilities. But mobility between different grades is not always possible and within each grade great differences in efficiency exist. The division of the bonus is sometimes designed to recognize exceptional merit and ability apart from the reward these already receive in wages and position. The great difficulty here is to get some objective standard by which the industrial efficiency

of each participant may be measured. This greater efficiency may take a variety of forms. One worker may be distinguished from his fellows by his more "obliging spirit," his harder work, good timekeeping, greater productivity, by the finer quality of his work, by saving of tools and materials, by his greater inventiveness, by the more ready adoption of new processes, or by a keen co-operative spirit leading to greater harmony all round.

How are these qualities to be estimated and equated to a monetary return? The normal method is to leave it to the discretion of the management. This, of course, means that the immediate superior of the employee reports on his work. This is not always a satisfactory method, as it leaves room for the play of favouritism. As distinct from the other principles of division—wages or salaries earned, length of service, or industrial grade—all more or less definite objective standards, this criterion of deserts is very difficult to apply. The other criteria are matters of fact; this alone is a matter of opinion. The arguments that led to the fixing of wages by definite agreement apply also to this additional increment to wages. Where the employee has to rely for his share on the discretion of the management it is seldom that satisfactory results are obtained. Such plans fail either to stimulate industrial efficiency or to promote social welfare. They do not tend to increase production because the judgment as to the reward for extra effort is subsequent to the effort made, and the employee has to work in the dark with no definite and pre-determined incentive to strengthen his endeavours. Disappointments, disputes, and even stoppages are frequently the result, and instead of promoting harmony such schemes frequently produce discord. Again the sense of dependence on the arbitrary judgment, caprice or liberality of the employer is wholly repugnant to labour in its present mood. As no definite obligation rests on the employer to part with a certain quota of his profits, the distribution made has the

ring of charity and almsgiving about it. For these reasons it is certainly desirable to make explicit and definite as much of the scheme as is possible, including the definition of divisible profits, the proportion going to employees, and (as here) the basis and conditions of division between the participants.

Form of Payment.

After the principle on which the share of each employee is to be determined has been settled there still remains the further question of the form the payment is to take. There are two methods and many varieties of each. The main distinction is between payment in cash and payment in shares. Which method is adopted has in the past depended largely on the purpose the scheme is intended to serve. Annual payment in cash lays emphasis on the prize money principle. It suggests that the extra effort resulting in increased profit is compensated for by the bonus. The profit-sharing bonus comes to represent the extra wages for unusual effort. Deferred payment in the form of shares emphasizes the co-partnership idea. It seeks to interest the worker in the stability and continued life and growth of the firm as a whole, to change his attitude from that of a mere wage-earner to that of a shareholder. Of course in cash profit-sharing the payment is made normally annually (in some few cases semi-annually) and to this extent is deferred. But this is a very different matter from giving the bonus in the form of shares which are normally neither transferable nor saleable. Here the deferred element is much more pronounced, payment in this case being postponed (apart from the dividend on such shares, often merely credited to their capital value) until such time as the holder severs his connection with the business.

If we exclude gas companies' schemes we find that of the existing 146 schemes in Britain some eighty-six pay the bonus entirely in cash. In the case of fifteen other schemes, a part of the bonus is paid in cash, the

remainder being paid to a provident or superannuation fund, or alternatively invested in the capital of the undertaking. In practically all these cases the payment is made after the annual balance sheet is completed. In several cases, however, attempts have been made to shorten the interval between payments by declaring the bonus half-yearly, quarterly, or even monthly. But these shorter periods necessitate the frequent preparation of the profit and loss account, and even where possible it means a great deal of extra clerical work and as a result such an arrangement is not in general use. The shortening of the interval is meant to stimulate the worker to greater efficiency, and to emphasize the payment-by-results side of the bonus. The opposite process is adopted if the desire be to underline the partnership point of view. In one case the bonus is declared annually but is retained for a three years' period in the hands of the firm at 6 per cent interest, unless the employee requests an annual payment. In some cases part of the bonus may be carried forward in order to average good and bad years.

The next most important method of bonus-payment is designed to take the first step towards encouraging the employee to save. This takes the form of putting the bonus to a deposit account from which the employee can withdraw it at short notice. There are eighteen such schemes in existence in the United Kingdom to-day. Such schemes must be clearly distinguished from those in which the whole or part of the bonus is credited to a provident fund in the name of each individual employee. In the latter case the money cannot be withdrawn at short notice unless in cases of grave emergency. The average ratio of bonus to wages for the United Kingdom is about 5 per cent and if the employee earns £200 a year this means only about £10 in bonus per year. To put this to a savings account with facilities for withdrawal at short notice is in practice no better than paying the bonus in cash. If the employee can freely withdraw it he will in the majority of cases do

so and spend it on his immediate needs, as the sum is too small and the reception of the next instalment too uncertain and remote for it to serve the purpose of a " nest egg." To obviate this practical difficulty most firms practising this form of profit-sharing offer to act as a savings bank for their employees. In proportion as the employee saves so does the firm increase those savings by an additional contribution out of and according to the profits it earns. First, in order to offer at least as good as an ordinary savings bank, it guarantees a minimum rate of interest, and second, it pays a further rate of interest on such deposits equal to the whole or a part of the dividend accruing to the ordinary capital of the business.

Where the employee's share of the profits is neither paid in cash, nor put to a savings account, but is held by the firm for his benefit, we get a third method of allocation. This differs from the latter in two main particulars: first it is never conditional on the employee saving so much out of his wages, and second, the amount deposited to his credit (whether collectively or individually) is not withdrawable at short notice. In this case the employee's share of profits is credited to a fund which is used either generally or specifically for his benefit. It may be a pension, insurance, provident, sick or disablement fund, or in the case of female employees a marriage dowry fund. In the United Kingdom to-day only seven cases are known where the whole of the profit-sharing bonus is disposed of in this way. There are, of course, numerous other cases where a pension or provident fund exists, but such a fund is either built up with no definite relation to profits earned or is only a by-product of the profit-sharing scheme. The profit-sharing provident funds may be either a common pool from which any worker in need may benefit, or secondly, each individual worker may have his share placed to the credit of his individual account. The latter case is more common. The former creates a new problem in the matter of control and management of the

fund, which the second can obviate by the explicit formation of general rules. These usually state that the amount which has accumulated to the credit of an employee shall be paid to him either when he has served a certain term of years with the firm, or when he has attained a certain age. If only part of the bonus is put to this provident fund it is usual for the remainder to be paid in cash.

The last form of deferred payment of the profit-sharing bonus exists where the worker instead of getting a cash return gets a share in the undertaking. The bonus is here retained for investment in the business. This means that the worker acquires capital in his firm and gets the dividend that accrues. Where cash is paid, where savings are encouraged, where old age is provided for, the appeal is simply to private and personal advantage; where shares are given, an attempt is made to appeal to a similar motive through ensuring for the business stability and goodwill. The attitude of the worker to the industrial unit is no longer merely that of the wage-earner, but is now supplemented by that of the shareholder. In one case the gain accrues through (though not necessarily in proportion to) his own efforts, in the other through the collective efforts of all engaged in the undertaking. In such schemes of labour co-partnership the greatest diversity exists in details. The class of shares allotted, the terms under which they are held, the dividends accruing, the amounts to be allocated to employees, represent a wide variety of industrial experiments. The significance of this development, appealing as it does to a new motive, and foreshadowing a new orientation of industrial control, and the wide range of possibilities it opens out for the future are so important as to call for treatment in some detail and this will be attempted in the following part.

Summary.

With the exception of gas companies only a very few firms out of the total number in other industries have

adopted profit-sharing. Large-scale staple industries seem to have been most successful in their profit-sharing ventures, and the movement seems to be extending among undertakings of this class.

After the sum total going to labour has been settled the further question remains of how this sum is to be distributed among the employees. Four principles are in actual use. First, division is made according to the already established wage-bill. This merely accentuates existing differences in remuneration and does not make any novel appeal. Second, according to length of service, but more frequently this method of division is combined with the former. It tends to promote stability among the labour force. Third, according to the rank or grade of the employee; this implies that the higher the rank the greater the deserts of the recipient. Lastly, there is the principle of merit. With a uniform standard wage it is often felt that individual merit is not adequately recognized and a share in profits is used to supply the deficiency. The great difficulty here is to get an objective standard of merit. If differences of opinion arise over payment by piece-work results, much greater differences are sure to arise where the decision is left to the management.

The payment may be either in the form of cash or in the form of shares. The former method has many variations. Hard cash may be paid, or the employee's share may be added to, conditional on his possessing an amount in savings, or again it may be a cash credit reserved for provident purposes. The second method is to allot to the employee shares in the undertaking. This giving of profits in kind is designed to alter the whole point of view of the worker and interest him not merely in wages but also in the whole future prosperity of his industrial unit.

CHAPTER X

CRITICISM OF PROFIT-SHARING

WITH the exception of an isolated scheme in 1829, profit-sharing did not receive any attention in the United Kingdom until 1865, when some six schemes were started. From that year onwards increasing numbers of schemes were initiated. Though the general tendency has been for their numbers to increase, this increase has been fitful and sporadic, the most fruitful periods in this respect being 1889–92, 1908–9, 1912–14 and the years 1919–20. These periods were in the main distinguished by good trade and by considerable industrial discontent. Of the 380 schemes known to have been started in this country, some 198 have been abandoned. Of the remaining 182 schemes (apart from those started in 1919) the average life is about fourteen years, and only eight of them have been in existence for over forty years, and only thirty-four for over twenty years.

The Causes of their Disappearance.

The heavy death rate among these schemes has been due to a variety of causes. Most prominent among these causes is that of disappointment and dissatisfaction with the operations of the plan. In over ninety cases this is given as the cause of abandonment. The precise reason for this dissatisfaction is not always very evident. The employers alone have the power to discard the scheme and their particular dissatisfaction must therefore have been the immediate cause. But in many cases this was merely a reflex of how the employees felt on the matter. It has been a very general experience that, after a few years, when the novelty has worn off, the workers became apathetic and neither worked harder nor indeed seemed even grateful

for the extra award they received. Employers expected at least some sentimental return for the additional remuneration and as there seemed to be no indication of this they abandoned the effort. In about a dozen of these cases, after the scheme had been some time in operation, it was definitely opposed by the workers or by their organizations, or again by the employers' organization. In some other cases the profit-sharing element was definitely abandoned and the extra award given in the form of increased wages, pensions, gratuity bonuses, or shorter hours.

The rest of the schemes which have been abandoned have gone down not so much because of their own inherent defects but because the parent firm could no longer support them. About fifty of the defunct schemes have thus disappeared. This would not seem to show that there is any direct connection between the longevity of a firm and the existence of a profit-sharing scheme within it, though it would be equally unwise to draw the opposite deduction. It seems quite a reasonable expectation that times of bad trade, during which businesses sustained financial losses and were liquidated or dissolved, should equally exact a toll of profit-sharing schemes.

Of the remaining schemes, where the causes of abandonment are known, the majority disappeared because of altered arrangements. The employer died or retired and the new management did not continue the former arrangement, the business was formed into a limited liability company or was taken over by another company, or was municipalized or transformed into a co-operative society and the profit-sharing scheme was abolished.

Of these abandoned schemes only a very few lived to a ripe old age. None of them existed for over forty-two years and only sixteen of them for over twenty. Their average duration was under nine years, a third of them ceased to exist before the fourth, and half of them before the seventh year of the experiment. And even this exaggerates their effective duration, as in not a few cases

the scheme was more or less in abeyance before it was finally and formally discontinued.

From the point of view of the form in which the bonus was paid in these discontinued schemes the results are as follows: in some 152 of the cases the bonus was paid in cash, in three of the cases it took the form of credits to a savings account, in seven of the cases it was paid to a provident fund, and in only two of the cases was it invested entirely in the capital of the undertaking. The details in the remaining schemes are either not known, or the scheme was a hybrid one and the bonus paid partly in one form and partly in another.

The Inherent Defects in Cash Participation.

Of cash profit-sharing there can be hardly two opinions. It has not proved successful in solving any of our present industrial troubles. In some cases it has even bred them. The reasons for this are easily stated. As we have seen from the details of the abandoned schemes, the most common reason given for their failure was "dissatisfaction with their operation." This of course is merely the psychological reflex of certain inherent defects. Normally, employers are rather reluctant to condescend to particulars and to give reasons for their dissatisfaction. Often they state that the apathy of the workers disappointed them, the natural inference from this being that they expected the employees to be keenly interested in the possibility of increasing their earnings and to demonstrate their interest by furthering to the best of their power the prosperity of the firm. This in many cases they did not do and the employer quite naturally felt that his profit-sharing scheme had missed its mark and that he was not receiving anything in return for the extra inducement to production he was offering the labouring man. This common failure to stimulate interest is due to certain radical defects in any system of cash profit-sharing.

The Smallness of the Bonus.

It is a cardinal fact that the normal profit of the employer when spread over the workers he employs comes to very little. Just as when socialists propose an equal division of income they forget that if you take the whole income of the nation and divide it into 45 million equal parts it comes to, at most, a miserable £80 per annum per head. So if you divide up the employer's profit among his employees the net sum to be received by each is insignificant. It is what the economists call a "minimal sensible," too small to exert any energizing influence. If an employer has a capital of £100,000 invested in an industrial undertaking, then he is entitled to a return of at least as much as he would get if it were invested in a first-class security, nowadays about 6 per cent, and this means £6,000. In addition, reserves, depreciation, and contingencies must be allowed for, and the balance remaining does not normally amount to much and when this is further divided in two, half to shareholders or other owners of capital, and the remaining half divided again by the total number of workers, we get a paltry and insignificant sum—£5 or £10, or, in other terms, two or three weeks' extra wages. It is almost impossible to state with absolute accuracy the ratio of this bonus over the whole field of profit-sharing, but the average bonus for the years 1901–1918 inclusive, in the schemes where the bonus is known, comes to a little short of three weeks' wages per year.

Of course the value of money is always comparative. And to the worker an extra £5 may mean a good deal. There is, of course, no danger of his refusing it and it is doubtless welcome. But it achieves nothing. Unless the reward is of such a nature and size as to knit up the worker's mind and effort with the business as a whole it serves no useful purpose. The fact that this small dole is proportionate to profit is of no positive value whatever, though there is evidence to show that it may have a negative value in that if the dole is reduced or disappears

altogether the worker has much to say in the way of criticism of those responsible for profits.

Its Remoteness.

Secondly, not only is the dole too small, but it is too remote. The hope of a small sum by next Christmas is too feeble and distant an expectation to spur the worker on to renewed efforts. Constituted as we are, the immediate and near pleasure is always stronger in its appeal than the uncertain hope of a distant reward in the future. Even where a semi-annual disbursement is made it has been found unavailing, because here you have to divide the sums in multiplying the times and it has been found equally ineffective in demonstrating to the worker the necessity for greater energy. There may be some influence felt a week before and a week after payment but this is no compensation to the employer for the loss of profit entailed in operating the scheme and the forethought in devising it.

It should be added, however, that the effectiveness of profit-sharing in promoting efficiency depends to a considerable extent on the size of the business. Indeed as a general rule its effect is in inverse ratio to the magnitude of the undertaking. The smaller the business the more direct and the more obvious the effect of any individual's effort on the total prosperity, and again the more is that influence which each can exert on the other and hence the greater possibility of cultivating the team spirit. It follows from this that profit-sharing schemes are much more effective when applied in a large business not to the general body of wage-earners but only to the small powerful group of administrative and discretionary employees.

The Ebb and Flow of Profits.

Thirdly, profits fluctuate very considerably and this is a common cause of dissatisfaction. There is no question that the average worker soon comes to look upon his Christmas dole as a right; often he even discounts it before

he gets it. This may be a plain case of "counting your chickens before they are hatched," but it is a perfectly natural mode of procedure for people with small incomes. These two factors combined—the consideration of the profit-sharing bonus as a right, a part of wages, plus its liability to fluctuate—has been the cause of the abandonment of many profit-sharing schemes. Many of the now defunct schemes were given up for this reason, and even among those that have survived, difficulty has been experienced in surmounting the lean years. For example, Clarke, Nickolls & Coombs, Limited, have in the 29 years' history of their scheme encountered three such years, viz., 1904, 1910, and 1914. In each case the bonus by no means disappeared but was simply reduced by about 5 per cent on the previous year, still leaving a substantial percentage on wages. In each case it was due to special circumstances (e.g. the sugar tax) altogether outside the control of the firm. But this did not prevent trouble. In their own words they state: "We are bound to record that the difficulty of reconciling the worker-beneficiaries to these drops in their bonus was (especially the first time) greater than we should either have expected or liked." It is in the interests of fairness to add that it is just on this point that the advantages of co-partnership are most felt and instances are not lacking, as we shall see, where reduced dividends under co-partnery have been accepted with equanimity.

It may seem at first sight that a certain inconsistency is involved in making two charges against profit-sharing on somewhat opposing grounds. If the bonus under profit-sharing is usually too small to influence labour, how is it that serious discontent is often occasioned if the amount of this too small bonus fluctuates? This apparent theoretical inconsistency must lie also on the shoulders of the workpeople who exhibit it. But the reason for it is perfectly natural. First, the worker's bonus is an epitome of the whole profits of the concern, but when paid

in cash it is too small to reflect, with any compelling power, the whole prosperity of the business. Second, the connection between total profits and the infinitesimal portion of it he gets is to the normal labouring man almost totally eclipsed by the financial funds and percentages (often not disclosed to him) which are reserved for depreciation, extensions, contingencies, interest on capital and the whole volume of incomprehensible book-keeping which intervenes between the gross sum of profits and the declaration of his share. Third, as divisible profits are usually distributed in proportion to wages, they merely exaggerate wage differences and do nothing to discriminate between different deserts and efforts. Consequently they do not stimulate. The inevitable result is that labour looks on its bonus more or less as a right and hence, though both too small and too indiscriminate to stimulate to extra individual effort, the sudden reduction of this normal amount accruing to labour is looked on as the withholding of a right, a part of wages, and consequently results in great discontent. Briefly the unfortunate position is that while increased bonus does not stimulate, a decrease is very prone to irritate. This is exactly the position, as the industrial world has experienced to its cost, with wages.

The Provocation to Criticism.

But the last argument against an annual cash distribution of profits, and the most conclusive, is that such a proposal brings up many questions for discussion the answers to which we do not yet know—questions which will need endless thought, time and experiment to settle. Notice that these are not immediately raised. As long as the worker feels he is getting a new and novel gift it will be accepted, apart from onerous conditions, readily and without question. The trade union officials who themselves are probably not participants may attempt to modify the conditions and look the gift horse in the mouth, but

unless their union has definite rules against participating in such schemes it is a foregone conclusion that they will accept this means of adding to the remuneration of their members. The vast majority of workers will accept the dole uncritically simply as an addition to their earnings and in a few years will forget the obligations on their part and the conditions of good trade which alone render possible the extra increment. Then the inevitable happens, a cycle of trade, extra taxation, foreign competition, a new patent in a rival's hands, loss of goodwill through changes in management, change of fashion, and profits slump. Labour, ignorant as it is of economic matters, centres its suspicion on the management. Under the circumstances it is debatable whether frank largesse has not quite as beneficial an effect in the long run upon both capital and labour as an elaborate system which awakens the suspicion of the labouring man and raises the question of what is fair between those who have and those who have not.

Undoubtedly, if a system of overall cash bonuses is to be resorted to, no better method can be found than that adopted by the Ford Motor Company (England), Limited, and also by the parent company. How far the scheme can be applied in highly organized trades is doubtful, but where it can be applied without friction it certainly produces the best results. No doubt it is most feasible when applied to relatively unskilled but carefully selected and trained labour. The three main points in the scheme are (1) labour is expressly warned not to consider its share as a right, or part of wages; it is a gift from the company to those eligible employees; (2) it is a fixed sum paid out of profits, but not in proportion to them, and is conditional on the satisfactory completion of six months' service and the fulfilment of civic, domestic and economic duties under the surveillance of the welfare supervisor; (3) it is added to the hourly rate and paid weekly, thus giving an ever-present stimulus to effort. Moreover, it is merely

sharing out of profits and not according to profits, hence there is no trouble in the matter of fluctuations and no occasion therefore to raise awkward questions relating to the efficiency of the management. This system, which, of course, does not conform to our strict definition of profit-sharing, avoids every one of the faults inherent in most profit-sharing schemes. The bonus is not small; it is not remote, being paid weekly; it does not fluctuate, and as it is not in direct proportion to profits made, the extent of these profits is never called in question. This scheme for promoting efficiency has recently been supplemented by an investment plan designed to secure a "mutuality of aim," referred to later in Part IV, Chapter XIX.

The question of responsibility is raised again in connection with co-partnership and the attempt to get over the great and radical difficulty it raises guides us in the endeavour to formulate schemes of true co-partnership. Hence it is that the recent developments have put more and more emphasis on the sharing of control with the workers through the formation of a committee having a voice in the internal management of the undertaking.

Summary.

Profit-sharing schemes have been introduced in increasing numbers, but the advance is more pronounced in times of good employment accompanied by industrial ferment.

Over half those introduced have already been abandoned. The causes of this vary, but dissatisfaction with the operation of the schemes has been the most common reason assigned. Most of these schemes consisted in cash profit-sharing, and do not refer to co-partnership.

Normally the employer did not feel he was receiving his just return. The cash share allotted to each individual worker failed to exert any appreciable influence on his conduct. This is due to its relative smallness, to its remoteness and to the deferred nature of the payment,

This remoteness—the gap between effort and profits—is greatest in large firms. In small firms, or among the managerial staff of large ones, this is of lesser importance, and is one reason why profit-sharing is more successful in these cases.

Again, profits fluctuate, and the worker's attitude to his share makes this a frequent source of irritation. Without capital in the business and without responsibility for its commercial guidance the recipient soon comes to consider his bonus as a sort of yearly gratuity. If it disappears he naturally blames somebody. Thus, while the extra reward fails to stimulate, its disappearance tends to irritate, exactly as happens with wages.

This irritation finds vent in criticisms of the management, and arises only after the scheme has been in operation for some years and the worker has come to visualize the amount of bonus due to him. If the worker appreciated the true nature of the bonus he might accept philosophically its fluctuations but experience shows he does not and in looking around for someone to " blame it on " he fixes on the management, just as to-day most of the ills that flesh is heir to are laid at the door of the capitalist—as the universal scapegoat.

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PART III—CO-PARTNERSHIP

CHAPTER XI

PROFIT-SHARING v. CO-PARTNERSHIP

If, then, the verdicts of experience and reason combine to condemn cash profit-sharing, as serving no useful industrial purpose, is there any alternative method which can be suggested? So far we have not attempted to differentiate between the various methods or forms of bonus payment in their effects on the participants. Our general thesis has simply been to demonstrate that the making of the worker a mere cash sharer in the fluctuating profits of an undertaking has in the main failed in its purpose. In the majority of cases where tried, the scheme has even failed to survive; in the minority of cases that still persist there is no clear evidence to show that the scheme has led to greater loyalty, or consistently greater production. If this be so, what of those plans which give the worker not a mere fluctuating cash bonus, but a real investment in the capital of the business?

Briefly defined, co-partnership means profit-sharing plus the ownership of capital and the control that ownership implies. In this case the desire is to knit up the interests of the worker with the prosperity of the business. The employee has a certain interest in the business tangibly represented by his weekly wage, the shareholder also has an interest in the firm represented by his receipt of a dividend. Can we carry over to the worker some of the interest of the shareholder? Can we add to the worker's desire to earn his wage, to hold his job, the desire to further the prosperity of his firm? Can we make the worker a shareholder?

It has been recognized for over thirty years that not 10 per cent of the workers attain their maximum

possibilities. Most could easily do, without undue fatigue, at least 50 per cent better. And they do not try because they have no inducement. Often this lack of interest in output is testified to by definite rules which embody the principle that wages are the primary consideration and output only secondary. Where the two are opposed as sometimes happens, wages are always in the eyes of labour the paramount consideration. For instance, the multiplication of rules regulating the demarcation of crafts hinders production, the fixing of definite time limits for each job, the opposition to payment by results, and the fear of cut rates, where it exists, are all influences tending towards a lowering of output. Apart from these definite considerations there is over almost the whole industrial world to-day a disgruntled feeling, and suspicion and mistrust are almost universal. This psychological attitude chills the ardour of labour, renders timid the enterprise of the employer, and has an enormous though unmeasurable effect on industrial productivity. Occasionally these suspicions when focused by a definite grievance crystallize into a definite "ca' canny" policy, as instanced by the prevalence of "stay-in" strikes and "work-to-rule" policies. Apart from disagreements in particular industries the growing dissatisfaction of the labour factor with what it considers the gross injustices and anomalies of the present capitalistic, imperialistic system has led it to preach to its members the policy of a definite restriction of output. Particularly is this urged as a necessary safeguard against the recurrent evil of unemployment. The arguments adduced in support of this policy may be, and are, inherently erroneous, but labour feels that it has no guarantee that increased production will not be used solely for private profits and the aggrandizement of the owners of capital without either the consumer or the worker benefiting in the slightest degree.

Confronted with practices born of these principles the modern employer is naturally looking around for some

means of bringing back to the workshop a keen interest in production. He is seeking an incentive so that every man's work will keep him stretching upwards to do it. He believes, and rightly, that there is no greater natural resource in Britain to-day than the dormant physical and mental forces of our people. Largely because we have left the development of these potentialities to chance or to charity we struggle to-day against an overwhelming inertia of apathy and inefficiency. We have not given the worker conditions to develop himself, we have made production an empty, meaningless task, a dreary, treadmill process, and to-day we find it only a fraction of the possible. Can we by giving the worker a real, live interest in profits utilize for ourselves and for the nation the unmeasured latent aptitudes of men applied intelligently to the process of transforming the raw materials of the world into consumable commodities?

That is briefly the problem, and co-partnery is an attempt at its solution. Make the worker a shareholder, it says, and you have taken the first step towards attaining the ideal of common interest. It may be here remarked as fundamental to the whole question that the attempt in co-partnership is not in the first instance to cultivate the workers' interest in capital owning, to educate him up to what it means and thus to make him desire possession, because he feels capable of fulfilling the rights and obligations it entails. In co-partnership he is first given ownership apart from his desire or capacity for it, and it is then hoped that being in possession he will take an interest in the thing possessed.

Capital and the Worker.

Left to himself, the worker is not keen on industrial investments. Out of his weekly wage he makes no attempt to save in order to buy shares in the firm that employs him. In too many cases he cannot. Mr. B. Seebohm Rowntree calculates that the minimum wage, i.e. "the

wage that should enable a man to marry, to occupy a decent house, and to bring up a family of normal size (three) in a state of physical efficiency, while allowing a reasonable margin for contingencies and recreation" is to-day (March, 1921) about 90/- per week. Not many ordinary workmen of to-day have any considerable surplus over this amount, especially when account is taken of the fact that the minimum wage makes little allowance for comforts and none for luxuries. But quite apart from their ability there are clear signs that even when able they are not willing. Partly this is due to the absence of the saving habit often through lack of any regular opportunity to save, partly to an ignorance breeding distrust of investments, and partly to a conscious condemnation of the present industrial system and a desire to keep clear of having any vested interest in its continuance. Whatever the cause the fact is indisputable. At present the worker in general is not educated up to the functions of shareholding. Cases do exist, especially in the higher grades of workers—supervisors, foremen, charge hands and skilled craftsmen—where they do invest their surplus cash in shares, but seldom in the firm which actually employs them. This is probably more common in the cotton industry of Lancashire than in any other. When addressing a meeting of workers on this subject, the writer had the following question put to him by an operative: "Why should we as workers be asked to invest capital in any one firm, such as the firm that employs us. Every capitalist spreads his investments for safety and ought we not to do likewise?" This is certainly a pertinent inquiry and justifies the preferential treatment, referred to later, of employee-shareholders.

The financial inability of the worker to buy shares is the employer's first difficulty. Hence, if he is to make his workers shareholders he must first give them the money with which to buy the shares. Some employers suggest giving the shares outright and so avoiding the roundabout

camouflaging of the gifting characteristic of the policy of first giving a profit-sharing bonus and then either putting it in the form of shares or offering strong inducements for the re-investment of the cash in the business. My desk diary says, "The circling gull has no destination, it is the straight-flying crow that reaches the cornfield." But the straightest road is not always the quickest, and "direct action" is not always the best method of procedure. This is a case in point. Giving shares directly to the workers may gratify the employer's desire to feel a benevolent autocrat, but it is most injurious to the self-respecting workman. It demoralises him, it destroys his desire to earn, and cultivates his desire to get and even to confiscate. "If the boss can afford to present us with £50,000 in shares he can pay us better wages." The postmen recently refused to receive their Christmas boxes—they described it as a degrading procedure,—and the workman, though he may not refuse to accept the gift, will nevertheless not receive it with the gratitude the employer may expect. His feeling will be that "he that does me good with unmoved face does it but half, he chills me while he aids, my benefactor not my brother man." It is an essential characteristic of human nature that privileges worked for are always valued more highly than those granted freely. For these reasons the employer will do well to make the scheme contributory—even if this means the giving with one hand and the taking away with the other. This opinion is supported by Professor Charles Gide, in his booklet issued in 1910 entitled "L'Actionnariat ouvrier" (workmen's shareholding). He distinguishes three methods by which workmen may acquire shares in a business—

1. By simple purchase;

2. By profit-sharing and the accumulation of the workmen's bonus in the capital of the company;

3. By attributing to the workmen certain shares directly in consideration of service and not because he has contributed any capital (real or apparent) to the business.

Of these three methods he has found that by far the most successful in practice has been profit-sharing, together with the automatic accumulation of the profits so shared in the capital of the business as in the Familistère at Guise and the English gas companies.

While there can be no doubt as to the demoralizing effect of the mere gratuitous presentation of shares, it also seems reasonable to urge that the profit-sharing basis is itself tinged with this undesirable quality. To the workman the bonus on profits will, on first presentation, appear as a gift, a bribe, or an earning; after he has been receiving it for some time he may transmute it into a right. Whether he consider it a bribe or not will depend on the conditions attached, but nowadays these are seldom so onerous as to justify this conclusion. That the worker should regard the profit-sharing bonus as an earning is very improbable for the following reasons—

1. If the worker definitely earns his profit-bonus, then he has been defrauded of part of his earnings from the beginning of time.

2. Profits rightly accrue to the bearers of industrial risks. Does the worker acknowledge responsibility for losses?

3. Profits are too remote, fluctuating, and problematic ever to appeal to the worker as definitely the results of his particular effort.

4. In any case only a small part of the profit is due to output. In the matter of at least 65 per cent it is beyond the worker's (and frequently the manager's) control, and is therefore not made by him and therefore not earned.

5. Even the 35 per cent due to the workers is collective and each individual's contribution is entirely lost sight of in the general mass.

6. If the worker thought he earned it he would ask for it, but in actual fact he never does. He asks for increased wages and not for a share in profits.

The Classes of Shares given to Workers.

A further subdivision of what we previously called "the mixed motive" is the keynote to the kind of shares offered to employees. In some cases the impulse behind co-partnery has not been the desire to knit up the worker's interests with the business so much as to stimulate him to save. If stress is laid on the latter purpose it will be quite sufficient to offer the employee a safe investment at a good rate of interest. For this purpose the best instruments are privileged deposits, debenture or preference shares. Cases exist where each of these is offered. As examples of privileged deposits we have the cases of Sir W. G. Armstrong, Whitworth & Company, Limited; E. S. & A. Robinson, Limited, Stationers and Printers, Bristol; and Spillers & Bakers, Limited, Millers and Biscuit Manufacturers, of Cardiff. In all these cases the employee is invited to deposit money with the company. A fixed rate of interest is guaranteed as a minimum but in addition to this a rate is added which fluctuates according to the prosperity of the business. Thus while the chief result is to encourage thrift an attempt is also made to interest the workers in the general well-being of the whole undertaking.

In other cases the desire seems to be to encourage thrift by guaranteeing absolute safety rather than by offering the possibility of a high rate of interest. Such a case is that of Palmer's Shipbuilding & Iron Company, Limited. The total amount available for employees is £25,000 and this has been obtained by the directors of the firm and debentures to this value have been taken out in the firm's name. These are to be issued to employees as 5 per cent (Income Tax free) Consolidated Mortgage Debenture Stock, thus practically eliminating all risk and consequently any attempt to make the rate of yield correspond to actual profits. The National Provincial and Union Bank, by arrangement with the company, offers very easy terms of loan for employee-investors. Repayment of the loan

is also facilitated by deductions mutually agreed upon from wages, by the accumulation of interest on capital, and the recovery of Income Tax; so that an employee applying for £100 of stock deposits on application 10 per cent, i.e. £10, and repaying at the rate of 2s. a week would cancel his indebtedness in nine years, himself actually contributing only £56 16s. On unpaid balances the bank charges $4\frac{1}{2}$ per cent per annum, and if the investor is under the necessity of realizing his debentures the bank will take them over at any time during repayment, but otherwise they are redeemable at par, plus a premium of £2 10s. per cent, in the year 1951. This scheme seems far too conservative; it merely offers a safe investment under easy conditions. It does not attempt to interest the employee in the varying fortunes of the business; if it succeeds it will only promote thrift—a commendable object but one quite well catered for by the outside agency of banks. It offers the worker practically nothing he could not get by investing in Savings Certificates, and it leaves entirely untouched the question of industrial relationships.

A more promising scheme is that of the United States Steel Corporation. By this scheme, which was introduced in 1903, the Corporation advances money at 5 per cent interest for the purchase of stock and it accepts repayment by instalments over three years, giving in addition substantial bonuses to those employees who continue to hold their stock and who serve the Corporation faithfully. Over two million dollars were set aside for the purchase of at least 25 000 shares of the nominal value of $100 each in the Corporation's 7 per cent Preferred Stock, and these were offered to employees at a discount. When stock was fully paid up the certificate was to be issued to the subscriber and he might sell at any time he chose, but strong inducements to retention in the way of extra dividends were offered. From 1909 onwards Common Stock was also offered, and by 1913 the number of subscribers was 36,119, holding 34,551 Preferred shares and

25,793 Ordinary shares. Where the workman is asked to find the purchase money out of his wages probably safety is the primary consideration, but where the workman really gets in the form of a profit-sharing bonus the money he is asked or induced or compelled to invest in the firm, then safety is of less importance as he only stands to lose what he got above his wages.

The instance given is one of the few cases where the workman is asked to acquire ordinary shares with only minor conditions restricting his use of them. In the vast majority of cases the worker has had created for him a sort of super-ordinary share, a class of share even more risky than the ordinary share inasmuch as he gets a dividend only after a certain minimum has been guaranteed to the ordinary shareholder. The classical example of this is, of course, the Lever Brothers case, where the employee gets what are called "Partnership Certificates." These have no market value, no liability attached to them, and no capital paid into the business for them. They receive only the remainder of the surplus after the other classes of shares have been satisfied.

Analysis of Schemes.

It is now necessary to subdivide the various schemes into classes. The incentive to work, whether measured in terms of output, profits, waste-saving, regularity or continuity of employment, differs very considerably according to the method of sharing from profits. In the widest sense there are at least four types of schemes.

First, there is ordinary profit-sharing, where the employees get in addition to the standard wage a certain quota, mainly in cash, of the surplus. This may be paid weekly or monthly in advance, quarterly, semi-annually, or annually. The amount of profit paid over to the employees may depend on wages, merit, or length of service; it may be a fixed percentage, or it may be a graduated percentage varying according to total

profits, or according to total profits over a certain fixed minimum which goes to remunerate capital. It may be paid wholly in cash, or a certain portion may be paid collectively into a pension, interest, reserve, thrift, insurance, loan, building or mutual fund, or simply credited individually to each worker employed.

Second, if paid in shares it may grow into Co-partnership. This implies that the workers hold a portion of the capital of the business. But co-partnership need not necessarily have its origin in profit-sharing. The funds with which the worker purchases his shares may not be gifted from the firm in the shape of a share in profits. He may be asked to contribute out of his wages; this is the scheme in the well-known "Proctor and Gamble" plan. Experience has made it plain beyond dispute that workers will not or cannot take up shares in the firm which employs them unless very strong inducements are offered them, inducements much above what are offered to holders of any of the usual kinds of shares. Proctor and Gamble's present plan makes profit-sharing conditional on co-partnership instead of the more usual way of making co-partnership the result of profit-sharing. Among the recent British schemes, Bryant & May's, for instance, gives the workers a share in profits and then offers them inducements to invest these profits in the business. The inducement is to purchase shares at par, instead of market rate, but it is doubtful if this is enough. The experience of the Laroche-Joubert Paper Works at Angoulême, where out of the 1,200 persons employed only 82 have become shareholders, and the similar experience of Clarke, Nickolls and Coombs, London, where only 58 employees out of 1,400 have become individual shareholders, bears out this statement.

The third method is that adopted by the United States Steel Corporation and is best defined as contributory co-partnership. The worker is asked to buy on very favourable terms shares in the undertaking by which he

lives. This method, which has a great deal to commend it, is dealt with in Part IV, Chapter XIX.

The fourth method of sharing profits fixes on some item influencing profits directly under the participants' control, and uses this as the deciding factor in making extra payments to employees out of profits. The schemes dealt with in Part IV, Chapters XVI to XVIII are instances of this.

Summary.

The purpose of co-partnership is to substitute for the cash nexus the capital nexus. Cash profit-sharing fails because it creates no new bond of union between capital and labour. If the mere wage-earning attitude to production can be supplemented by the shareholding attitude, at once a pernicious distinction will be removed and a new bond of industrial good-will created.

But how is this transference of capital to the workers to be achieved? In the first place the great mass of the workers are not in receipt of a sufficiently large or steady income to enable them to buy shares in the open market. Second, even if they were they fight shy of industrial investments, and even more so of sinking their capital in the particular undertaking which employs them.

Co-partnership meets this difficulty by allotting to the workers a share in profits, and then either inducing or obliging them to take this out in the form of shares. As the worker cannot purchase he is simply given the new implement and the fervent hope expressed that he may learn to appreciate and use it by handling it. The gift in being given is not meant for immediate consumption but for further productive use, productive both industrially and psychologically. It implies qualities in the recipient that are not the condition of receipt and therefore may or may not be present.

To say that the worker's share of profits is definitely earned by him is not true. Very few even of the employers

would care to assert that the profits or losses made at the end of the financial year were definitely and solely the calculable results of their efforts. Much less does this apply when you refer to the workman on one hand, and, on the other, the result of a long and arbitrary arithmetical calculation which represents his individual share.

The motive behind the formation of a scheme largely moulds its form. This motive may be merely the encouragement of thrift, or the associated idea of offering a sound security for surplus funds, or again the definite desire to strike a blow at the too severe distinction between wage-earners and shareholders, or lastly to encourage merit by rewarding it.

These diverse motives mean different kinds of schemes, of which there are four distinct varieties. In ordinary profit-sharing a half-hearted attempt is made to interest the wage-earners in the commercial success of the firm. Co-partnery carries this further and seeks to reinforce the wage-earning interest by the shareholding interest and hence to obliterate the heavy line of demarcation between owners and workers—socially disintegrating as well as industrially sectionalizing. Contributory co-partnership seeks the same end by means of self-help rather than benevolence, while in addition it gathers up the merits of such schemes as merely encourage thrift by offering sound security. Lastly, sharing profits according to industrial elements as output, sales, economies, while undoubtedly promoting efficiency and encouraging ability, leave untouched the larger problem of co-partnership. These are not technically profit-sharing schemes but are so associated with them that their place and aims must be considered.

CHAPTER XII

TYPICAL CO-PARTNERSHIP SCHEMES

THERE are remarkably few cases in the United Kingdom to-day of pure co-partnership schemes. They are only eight in number, excluding the special case of gas companies. To define "pure" negatively, in order to show the character of adjacent schemes, we can lay emphasis on what they do not do.

In "pure" co-partnership schemes—

1. No part of the bonus is paid in other forms, but the whole of the profit-sharing bonus is handed over to the participants in the form of shares.

2. The workmen do not receive the shares as a mere gift without relation to the profits of the undertaking, nor do they receive them by purchase as an ordinary shareholder would, even if this purchase be on exceptionally favourable terms.

Up to this point we have avoided going into the details of any specific example. But in illustrating typical cases of co-partnership we go over the whole field and illustrate the type of scheme dealt with under profit-sharing in the last part. Pure co-partnership schemes are simply profit-sharing schemes with this addition, that the bonus instead of passing into the worker's hands in the form of cash, becomes for him an investment in the capital of the undertaking. He becomes a shareholder as well as a wage-earner.

Messrs. J., T. and J. Taylor, Ltd.

This firm of woollen cloth manufacturers, Batley, Yorkshire, is a particularly suitable example of co-partnership. Apart from the gas undertakings, it was the pioneer in this direction. Mr. Theodore C. Taylor, M.P., introduced profit-sharing into this business as soon as he

became sole partner in 1892, and the scheme was extended in 1896 to embrace not only managers and foremen previously included, but all the employees of the firm. In order to facilitate this the firm was converted into a limited liability company. Mr. Taylor's motives in introducing the scheme were largely altruistic, his desire being to improve the status of his employees. In order to commend the scheme to their good-will he presented them in respect of the year 1895 with two fully-paid £1 shares if they earned 20s. a week or more, and with one £1 share if they earned less.

In 1909 the scheme was amended, and in its present form the principle is adopted that when capital and labour have each had their return—wages for labour and 5 per cent for capital—the remaining profits should be distributed at the same rate per cent between the two parties. After depreciation has been allowed for and 5 per cent paid to capital, any percentage above this is also declared on the total wage-bill for the year, and each worker who has been employed for the period receives this percentage on his annual earnings. If 10 per cent is paid in dividend then 5 per cent bonus is paid to labour. Those employees who are 21 or over and have put in at least 5 years' service with the company and own shares up to half-a-year's wages receive a double bonus, i.e. in the above case they would receive 10 per cent on their wages. This includes at present about 500 of the employees.

The bonus is not paid to the workers in cash, but in the form of fully-paid shares in the company; the dividend on these shares, however, is paid in cash. As the total wages paid by the firm rank for bonus, a certain portion of the divisible profit is not allocated, as workers may not have been a full year in the firm's employment. This residue is paid into a special fund called a Workers' Benefit Fund. During the war, instead of paying the whole bonus in shares, the temporary expedient was adopted of paying the larger portion in War Loan or Exchequer Bonds.

The company employs about 1,950 workers, one-half

men and the remaining half women and girls, and at present there are over 1,840 employee-shareholders. The shares can be held only by employees of the company, and an employee cannot sell his shares unless he has a holding equal in amount to a year's wages, in which case he can sell the surplus over that amount. Those employees who leave the company's service are required to sell their shares within six months, but the company does not undertake to transfer shares until an interval of three months has elapsed. This provision is designed to deter employees from leaving simply to get the capital value of their holding. These employee-shares otherwise carry the same rate of dividend as any other share and are entitled to the same share in the assets of the company in case of winding-up. These bonus shares, however, carry no voting power. To-day the workers own more than half the capital of the company, and in their dual capacity as share-holders and profit-sharers they draw about three-quarters of the profit of the undertaking. During the whole life-time of the scheme and including the two years 1897–8, when no profits were made, the average bonus was 10¾ per cent, the dividend on capital 12 per cent; and the total sum paid to the workers over and above wages has been over £400,000.

An exceedingly important development has recently taken place in this company. A works council or co-partnership committee has been formed consisting of some thirty-seven members. It is drawn from all the grades and consists of six directors, the secretary, ten members of the managing staff, ten representatives of the foremen, and ten elected by the remaining employees. The functions of this committee are fairly wide, and the attempt is made to give it a real vital controlling interest in internal administration. It can consider any suggestions for improvements, and deal with all questions affecting working conditions. For the purpose of concentrating on the several issues, a series of sub-committees has been formed.

The company report themselves as satisfied with their co-partnership scheme and they believe it has also commended itself to the workpeople. In their opinion it has had three very desirable results: it has tended to reduce the labour turn-over of the firm by promoting continuity of service; it has called forth greater interest and zeal in work; and has unquestionably promoted harmonious relations between the management and the employees."

Other Schemes.

No other pure co-partnership scheme still in existence in Britain in general competitive industry has had the same spell of life as the Taylor scheme. It was not until some 13 years later, when Lever Brothers, Limited, and the Cotton Powder Company, Limited, started their co-partnership schemes, that the movement was carried forward. The former scheme differs considerably from the Taylor plan. It is not perhaps necessary to go into all the details here. The Lever Brothers scheme was started only in 1909 and has not perhaps been long enough in normal existence (especially if we make some allowance for war changes) to warrant the drawing of too dogmatic deductions from its results. At various times it has been considerably modified and other changes are foreshadowed. It has provoked certain encounters with trade unions, and very recently the occasion of a strike led to the withdrawal of its privileges from certain of the recalcitrant members. For these reasons it is probably not desirable to trace the many intricate details of this still evolving scheme.

But a few of the main particulars in which it differs radically from the Batley plan may be mentioned. First, the "partnership certificates," as they are called, which are issued to the employees represent no real capital invested in the company and are consequently of no intrinsic value. They are a class of holding expressly created for giving away to employees. They cannot be bought or sold and they lapse automatically and without

compensation should an employee do anything prejudicial to the interests of the firm, e.g. engage in a strike, or leave the service of the company "by voluntary retirement or resignation and not owing to permanent incapacity to work caused by ill-health." In the case of the Taylor scheme, as we saw, the company undertakes to transfer the shares of any employee who leaves its service. This follows from the fact that under the latter scheme the shares held by the employee represent a real investment in the capital of the business, while under the Port Sunlight plan the partnership certificates are merely script guaranteeing the payment of a dividend on their nominal value.

This dividend on partnership certificates is at the rate of 5 per cent less than that paid on the ordinary shares, and has averaged about 10 per cent for the ten years the scheme has been in existence. This dividend was originally credited to the employees in a savings bank account but is now paid in the form of 5 per cent cumulative preferred ordinary shares which the holder can sell at any time for cash at par value, but if the original allottee retains them he gets the same rate of interest as that enjoyed by the ordinary shareholder. In this case therefore only the interest on the bonus and not the bonus itself becomes a real realizable investment for the holder.

But should the holder of partnership certificates die leaving a widow, or retire on attaining the age limit, these certificates do not as in other circumstances lapse entirely, but are exchanged for preferential certificates, either of the same nominal amount as the partnership ones, or ten times the average dividends paid on them during the three preceding years, whichever shall be the lesser. The granting of these on the conversion of partnership certificates does not interfere in any way with the other provisions made for old age pensions under the company's benefit fund. On these preferential certificates 5 per cent interest is paid, but they have, like the partnership certificates, no capital value and the right to them

is cancelled when the holder dies, or being a widow if she marries again or undertakes other employment without the previous consent of the trustees.

Neither of these two classes of certificates—the partnership and preferential—represents real shares in the capital of the business. They are, as their name indicates, mere certificates and not shares. Their nominal face value is merely useful as the sum on which percentages are calculated. The real share which an employee can hold in the business is represented by the cumulative preferred ordinary shares in which this percentage is paid in the case of partnership certificates. At the beginning of 1919 over £400,000 of these were issued and outstanding and this represented about 2½ per cent of the total capital of the company issued and taken up at that time. These and these alone are comparable to the workmen's shares held under the Taylor scheme, but they differ from the latter in two ways: first, they can be sold without condition at pleasure, though inducements are offered to retain them; and second, they confer voting rights to the extent of one vote for every forty five-shilling shares.

Another important difference is that whereas the Lever Brothers scheme imposes strict limits on the extent of the employee's holding, the Taylor one leaves the question open. This limit is imposed in two ways. In the first place the total amount of partnership certificates is limited. In August, 1919, the limit was £1,000,000 and no issue in excess of this could be made without the consent in writing of "the holder of the majority shares of the company." This amount has already been issued and the probability is that a further issue will be made. But this rests with the holder of the majority shares, who has the right to require that any further issue shall be stopped. It is also expressly stated that the trust deed shall not be construed as creating a partnership in law between the company and its employees.

In the second place the limit may be imposed not on

the total amount issuable but on the extent of the holding of each individual participant. In the Lever scheme there is a maximum holding for each grade of employee, varying from two to four times the worker's annual wages. But to this holding, or indeed to any holding whatsoever, he has no legal or even conventional right. The number of certificates he is allotted depends on the recommendation of his foreman or other superior and the final right is vested in the trustees, i.e. the directors of the company. There is the right of appeal from their decision to a committee, which, however, possesses no executive power but can only consider and report to the trustees, who shall finally decide as to whether the employee is entitled to an issue, or if so, to what nominal amount.

These limitations on the issue of partnership certificates and, therefore, on the real shares (the cumulative preferred ordinary shares), which can be amassed only out of the dividends on the above certificates, has meant that the employees hold only an insignificant portion of the total issued capital of the company. This amounts to only about 2½ per cent while under the more courageous Taylor scheme they hold over 50 per cent of the company's capital. There is at present considerable dissatisfaction among the employees at Port Sunlight with the operation of the scheme as instanced by the following report. Under the heading of "Co-Partnership Opposed," it was reported on 5th July, 1920, that "Lever Brothers' employees at a meeting held in Liverpool have passed a resolution declaring that the best interests of the trade union would be served by all Levers' employees returning their co-partnership script and refusing to accept any more, should it be offered."

Co-Partnership—A Status-Raiser.

These two schemes represent two widely different conceptions of what Labour Co-Partnership means. All subsequent schemes have been modelled either on the

one or the other; and it is important that the lines of cleavage should be emphasized, in order that we may see the exact issue involved.

Two distinct points of view may lie behind the introduction of a co-partnership scheme. One represents an unselfish motive, the other a business one. The former lays stress on the idea that it is only fair and reasonable that they who help to make the profit should share in it. Further, in addition to merely getting this in the shape of a fluctuating and transient cash bonus, they ought as intelligent individuals to hold a stake in the concern by which they live. They, in the interests of justice, should own part of the plant and equipment which they vivify by their labour. To say they must own only so much and no more is to put an arbitrary limit to the development of this principle of common ownership. But, so the argument runs, as owning implies buying and the worker has not the available cash to compete on fair terms with the outside shareholder, he must be put in such a position that he can exercise this purchasing power to acquire that to which he has already a moral claim. Only out of profits can he acquire this buying power. Now he has no experience in industrial buying and his needs are pressing, so he must be offered very strong inducements before he will invest in business. This can be accomplished only by giving a gift out of profits in the shape of a share in capital. Thus the worker becomes a shareholding employee—a working partner.

This necessity of supplying the worker with the extra purchasing power to buy shares was certainly much more obvious at the time the Taylor scheme was introduced than it is to-day. During these twenty-five years the independent spirit of labour has developed along with a considerable increase in its real wages, and in view of these new facts a contributionary element is probably desirable. What this new responsibility on the part of labour may ultimately lead to does not deter the industrial pioneer. The worker

having acquired shares, there naturally follows the exercise of the shareholders' functions and responsibilities. Here the Taylor scheme seems on the face of it to stop short.

It is probable, however, that this can be entirely justified. It is foolish to drive the analogy between the ordinary shareholder and the employee-shareholder to the point of completely identifying their functions. The limitations of the latter must be taken into account. A co-partnership scheme puts shares into the hands of persons entirely incapable by reason of lack of experience and education of exercising with sufficient vision the normal functions of shareholding. This is especially true when we remember that a large number of the labour co-partners may be women, girls, and boys. In the case of the Taylor scheme they are in a majority.

The difficulty is accentuated when we remember that girls particularly are not likely to be permanent employees and it is naturally difficult for them to take a long view which may mean future benefits they can never hope to reap and present sacrifices to which they must submit. Again the shareholder's and the worker's interests are frequently in practical conflict whatever philosophers may tell us about their ultimate unity. There is a danger that the worker with powers may bleed the concern in wages of its reserves. Where the workers already own more than half the capital it is clearly too late to experiment.

Under all the circumstances it is a much better plan to repose a certain amount of control in the workers through the formation of a co-partnership committee. Under the Taylor plan this recently formed body, it is important to notice, is not constituted merely for dealing with the details of the share-holding scheme. It is to all intents and purposes a works council similar to that advocated under the Whitley scheme. Its scope is not rigidly limited and already it has appointed seven sub-committees to deal with such diverse topics as education, safety and sanitation, and the development of the company's building estate.

This has given the workers of various grades an opportunity for constructive work in a constitutional manner. The main point is that here we have, in the twenty-five years the scheme has been in existence, the natural growth of a body of industrial co-partners who are now being given some opportunities of democratic control. This is the natural and will be the inevitable development of co-partnery. Ownership to be ever real or lively must be followed by some control over the thing owned. Otherwise in the present temper of labour there can be neither any vital interest in what is nominally owned nor any feeling of responsibility for it.

Co-partnership—A Wage System.

The other motive for introducing co-partnery has no sympathy with this view. It is primarily an economic motive and not a social one, and it aims at presenting the worker, within the limits of the present industrial system, with an incentive to further productive effort. Increased efficiency, not greater well-being, is its purpose. It is not an experiment so much as a scheme. Negatively it is founded not so much on a desire to increase the status of labour as on a recognition of the failure of the wage-system to stimulate the worker to maximum production. In the words of the founder of the Lever Brothers scheme: "I believe that it is impossible to produce the necessary propelling power of a human being unless you give some individual motive, incentive, and ideal of their own, which will encourage them during all the weary hours of monotonous work, which will stimulate them during the whole of a long life spent in industries . . . and to maintain an active progressiveness and an ever-ready alertness during the whole of that period, my experience proves to me it cannot be done with the wage-system alone." (Williams, pp. 96–7.)

The recognition of the failure of the uniform wage to encourage effort lies equally at the root of the present

attempt to extend payment by results. This remedial conception of co-partnership relegates the movement to the lower level of simply another method of wage-payment, the attempt being to differentiate between the industrial value of one worker and another and to pay in accordance therewith. The Taylor method is designed rather to increase the status of labour and not so much to introduce payment by results as to rely on results by payment. The great difficulty under the Lever scheme is to get a reliable criterion of deserts. Under a piece-work or a premium bonus system, the amount produced or the time spent is taken as the measurable unit of output. Then it becomes a straight question not indeed without its difficulties, but certainly much more likely to be fair and just than any method of adjudication that employs no calculable unit.

The Lever co-partnership scheme is an example of this The wages earned are not the unit on which distribution is based but are used only as a rough index and for fixing a maximum ; position or grade of work is considered only indirectly as reflected in salaries or wages earned; length of service is taken into account only in prescribing minimum limits: in this case twenty-two years of age and four years' service, formerly twenty-five years and five years' service. Thus, as the motive behind the scheme is to induce the workers to waste not that they may want not, otherwise to work hard in order to receive, the objective standards of achievement are passed by and the reward depends on the subjective estimate of the merits and deserts of each individual. To quote from a report of their scheme issued by Lever Brothers themselves: "The system of allotment is based on value of service. The very slacker and ne'er-do-weel receives *nil,* the apathetic from 5 per cent to 10 per cent, and the enthusiastic, appreciative and responsive above 10 per cent, with special allotment for special services and helpful suggestions." (Appendix 7 to "Standardizing Welfare," page 39.) This estimation

of merit can at all times be only a matter of opinion, and further of second-hand opinion. The judgment of the trustees who decide "in the first instance," and much more, the decision of "the holder of the majority shares," which is "final and binding," cannot be otherwise than founded on a report from the immediate superiors of the particular individual concerned. Herein lie great possibilities of favouritism, autocratic and arbitrary adjudications, and above all, the growth of a feeling of submission and dependence on the goodwill of the immediate superior. Apart from the effects on efficiency of the psychological attitude created by feelings of jealousy and injustice, such a scheme does not even exercise the maximum of stimulating power. The reward is announced after and not before the work is done and the employee is left in doubt as to what amount, if any, he will receive in recognition of his efforts. As his foreman must report on him his aim is to impress him favourably, and the best way to do this may not be simply by working harder. Where the purpose is to reward merit, the more personal and objective the criterion used the fairer it is likely to be. Thus co-partnership can never be other than a poor substitute for a system of payment by results.

Summary.

In the United Kingdom, to-day, only a very few schemes exist where the whole of the profit-sharing bonus is devoted to transferring capital to the workers. The Batley scheme is such a case. In the twenty-five years of its operation it has meant the transference to the employees of over half the capital and three-quarters of the annual profits. Not being a contributory scheme it has handed over capital without discrimination and to-day more than half the shareholders have no votes. Some control is assured them through a co-partnership committee, but the particular position reached in this case suggests some doubt as to the

merits of what may be called automatic co-partnership as compared with the selective principle of contribution.

The typical scheme representing the embodiment of contrasted motives is the Lever Brothers one. Here the immense size of the undertaking should be kept in mind in making the comparison. Only 2½ per cent of the issued capital of the undertaking is held by employees as against over 50 per cent in the Taylor scheme. The issue made to employees under the Lever scheme is a special class of certificates which do not represent real assets, and the distinction between an employee certificate-holder and an ordinary shareholder is very marked. In short, the Batley plan is bolder, more generous, more democratic, and much more advanced than the Lever scheme.

These two schemes have been the types on which most subsequent ones have been moulded. The Taylor scheme has involved a direct sacrifice on the part of capital, a definite giving of something without the expectation of its return in kind. The Lever scheme embodies an economic motive and not a purely moral one. It is founded on the recognized failure of the wage system to promote maximum production and it seeks to stimulate effort by rewarding merit.

Probably of all methods of increasing output the granting of mere certificates is the least effective, and the further restrictions and limitations imposed prevent any appreciable social result from ensuing even as an incidental. On the whole, therefore, there is much more promise for the future along the more generous lines of the Batley scheme.

CHAPTER XIII

THE SPECIAL CASE OF GAS COMPANIES

ARDENT supporters of Labour Co-partnership have argued that because the system has succeeded in gas undertakings it could be applied equally well in industry in general. They refute the idea that there exist specially favourable circumstances in this industry which facilitate the development of co-partnership. "It is a great mistake," says Aneurin Williams, "to suppose that the gas industry is more suitable for co-partnership than many others."

This point is of very great importance. If it can be maintained that this industry is typical of industry in general then the case for co-partnership is proved. For the gas industry affords the only instance in this country of a whole industrial field which has been largely reorganized on co-partnership lines. Almost every other industry can furnish an example but only in this one is co-partnership the general rule.

Nevertheless, it is almost certainly the case that the gas industry is a special case. In the first place most of the large gas undertakings are working under either the sliding scale system or the maximum dividend system, and both have this in common, that the dividends paid to shareholders are regulated according to the price of gas. Since Sir George Livesey introduced co-partnership in 1889 into the South Metropolitan Gas Company the sliding scale has been continually in operation. The precise figures have varied from time to time and are again likely to be altered to suit post-war conditions, but the following are typical. When gas costs 3s. 1d. per 1,000 cu. ft. the shares could receive 4 per cent interest, and for every 1d. that the price of gas fell, the rate of interest could rise by 2s. 8d. per £100. For every fall of 1d. in the price of gas

below 3s. 1d. a dividend on wages should be paid of $\frac{3}{4}$ per cent. If, for example, gas cost 2s. 6d., then capital would receive a dividend of 4 per cent plus $7 \times$ 2s. 8d. per cent $=$ 4·9 per cent and labour $7 \times \frac{3}{4} = 5\frac{1}{4}$ per cent. The essential feature in the sliding scale system is that the consumer shares in the profits through a reduction in price. This principle can be associated with the "Rochdale plan," as adopted by the co-operative movement, and also with the kindred practice of such undertakings as Wm. Thomson & Sons, Ltd., Huddersfield, and the equally well-known plan of the Nelson Manufacturing Company in the United States.

But the special point for consideration here is that the existence of the sliding scale removes several of the rocks on which profit-sharing schemes are so frequently wrecked. First, if fixed on an equitable basis, it amounts in practice to a guarantee of profits. This was not, of course, the main purpose of the sliding scale, which was designed primarily to safeguard the interests of the consumers. But the arrangement whereby the cheaper the price of gas, the greater the dividend to shareholders, means that in normal times losses can be almost entirely avoided through control of price. Now fluctuations in the amount of the bonus to labour always put any profit-sharing or co-partnership scheme in great jeopardy. This is especially true of the former, as in the latter case, even though no bonus be paid for the current year, the employee retains still his capital investment in the company.

Now it may look as if to-day these facts are falsified. During the year 1918, the South Metropolitan Gas Company paid no bonus to its 8,000 co-partnership employees, and the return to shareholders has been greatly reduced. This is entirely due to the rise in prices; dearer coal and heavier labour charges have vastly increased the cost of production and the old sliding scale figures needed the revision since effected. But the anomalous position created by the war does not affect the contention that

during the 30 years of the existence of the pioneer scheme stability and continuity of profits has been greatly assisted by the operation of the sliding scale. This stability has been extended to the bonus paid to labour by determining its amount on the same principle. Thus it cannot be maintained that "it is a great mistake to suppose that the gas industry is more suitable for co-partnership than many others." It is significant that the same writer admits in the same paragraph[1] that the "existence of the sliding scale facilitates matters in them" (gas works). The distinction between the admission that the sliding-scale "facilitates" the operation of co-partnership in gas undertaking but still does not render the latter "more suitable" for their adoption, is, to say the least of it, not at all clear.

But the existence of the sliding scale is itself the proof of another point. The sliding scale or its equivalent has been in operation during the whole period of the existence of profit-sharing schemes in gas works, being first adopted about the year 1876. The present basis of division as contained in the Bill recently before Parliament is that after ordinary stock has received 6 per cent the surplus profits should be divided among the consumers, the ordinary stockholders and the employee co-partners, in the proportion of ¾ to the consumers and ¼ equally between the ordinary stockholders and the employee co-partners. Thus, following on the sharp shock given to the sliding scale arrangements by the new conditions and the consequent reconstruction necessary, it looks as if the pure sliding scale between prices and dividends will be replaced by a scheme approximating more nearly to the maximum dividend plan, under which the surplus profits will be employed largely in reducing price. In ten of the thirty-six co-partnership gas companies the dividends are controlled by this alternate scheme. Both the maximum dividend to shareholders and the maximum

[1] Aneurin Williams, M.A., *Co-partnership and Profit-Sharing*, Chap. V, pp. 87–88.

price of gas are fixed. The maximum dividend is cumulative, and profits are used for this purpose and for reducing the price of gas. The bonus to employees fluctuates inversely as the price, just as under the pure sliding scale arrangement, and therefore offers very similar inducements to efficiency.

Why was the sliding scale introduced in 1876 into the regulation of gas undertakings? The report of the committee of Parliament which initiated the scale states that the object of the promoters was to provide a stimulus to gas companies to carry out their operations by the same kind of good management as was customary with ordinary commercial undertakings. Why was such a stimulus necessary? Simply because gas undertakings had a virtual local monopoly and were not subject to such competition as were ordinary businesses. Certainly much has happened since those days, and now it is maintained that gas works have to meet a heavy competition from electric light and power companies and from oil lighting and heating in all forms, and have therefore to fight their way just as have ordinary commercial undertakings. No doubt electricity and oil do compete as substitutes for gas but competition between one gas works and another is practically non-existent; in various uses too, lighting and heating, the competition differs and there is no doubt that to-day there are still certain monopolistic advantages in gas undertakings. The huge initial expense involved in laying down alternative means of lighting acts as a safeguard, at least against the too rapid encroachments of substitutes.

In their eagerness to prove the gas industry a special case, certain writers have claimed too much in the way of uniqueness. For instance, in his "Co-operation and Co-partnership" Mr. L. L. Price states that "a gas company by contrast by extending its mains and the like, is constantly adding to its capital account in the normal course of its business action." It is urged that more than in other

industries a gas company can always find an outlet for any such additions for capital as are involved in granting shares to its employees. This is, however, a questionable proposition and finds its best answer in a mere statement of fact. In January, 1919, the co-partners in the South Metropolitan Gas Company held £422,870 of stock. Of this only some £46,600 was purchased by the company from new issues for the purpose of converting the work-people's cash bonus into shares; the remaining £376,270 of stock was purchased for this purpose in the open market. This is typical of the procedure in other gas undertakings.

Again, fluctuations in demand are neither so common nor so violent as in other industries. There is the usual seasonal variation between summer and winter, but nothing like the intense fluctuations of boom and depression such as characterize, say, the cotton or building trades. Control of price depends largely on competition, and as no other gas works can send its products from a distance the market is assured and only the slow development of substitutes can alter this fact.

Of course, the rapid growth of industrial combinations may so alter conditions as to put many other productive undertakings on much the same footing as gas companies. The natural local monopoly of gas companies, and indeed of most municipal undertakings, may be paralleled by the creation of national or even international combinations. This new autocracy will inevitably have to be subordinated to the sovereignty of the State, and in the introduction of legislation to safeguard consumers an opportunity is offered for protecting the workers by some method of co-ordinating wages, profits, and prices. This may well be the occasion for which those who advocate State support for co-partnership are waiting.

Undoubtedly these circumstances do render the gas companies a field exceptionally favourable for the application of co-partnership methods. But such a fertile field might never have been tilled had not a former

chairman of the South Metropolitan Gas Company, in the person of Sir George Livesey, been a strong advocate of the system. His opportunity to get the support of his directors came as the result of certain industrial troubles with the Gas Workers' Union in the autumn of 1889. This introduction of the new system was followed by a strike of 2,000 employees, their principal objection being that the conditions attached interfered with the rights of their union. This strike was a failure, as the company filled the places of the strikers, but for a long time these troubles influenced the employees' attitude to the scheme. Indeed the Gas Workers' Union has never manifested any great enthusiasm for it, even although about 1905 the clause in the declaration signed by employee-co-partners to the effect that they were not members of the Gas Workers' Union was removed.

The Spread of the Movement.

The example of the pioneer company was not immediately followed by the other gas works. Four years later the South Suburban adopted a similar co-partnership scheme and about twelve years later the Commercial and the Chester companies followed suit. After an interval of some eighteen years from the original introduction, co-partnership became an epidemic among gas companies and its extension was rapid. From 1908–1914 some thirty-four companies adopted co-partnership schemes, as also did a few municipally-owned gas and electricity undertakings. It should be noted, however, that the amount of stock acquired by employees through profit-sharing is as yet only a small proportion of the whole. Only in the case of the South Metropolitan do employees hold over 5 per cent of the total capital; in seven others they hold over 2 per cent, while in all the remaining companies the amount of their holding is under 2 per cent. Of course the new conditions brought about by the war have upset the whole arrangements associated with the sliding scale. But it

would not be fair to allow this in any way to reflect on our opinion of co-partnership. The amount divided among employees during the year 1918 was very meagre indeed, but shareholders suffered similarly. In the case of the South Metropolitan Gas Company, for instance, the dividend paid to shareholders under the Statutory Undertakings (Temporary Increases of Charges) Act, 1918, was only a little over half of the pre-war rate. The whole arrangement of dividend and bonus required adjustment to the new conditions and the real success of co-partnership in gas undertakings must not be considered as affected by this more or less accidental happening.

But while no doubt the gas industry is carried on under conditions specially favourable to the growth of co-partnership schemes, many useful lessons can be learnt from their development in this most favoured industry. Conditions are not so dissimilar as to make it unprofitable to compare ways and means. Again, though gas companies are a sort of semi-sheltered valley wherein the plant of co-partnership may bear its richest fruit, it is a likely supposition that the method of its cultivation under these favourable conditions will similarly promote its growth in the open fields. Thus in considering, as is done in the following two chapters, the attitude of labour to co-partnership and the conditions of its success, it has seemed neither necessary nor expedient to rule out the valuable experience gained in the gas industry.

While the three schemes selected as examples are each typical of their own class, and these three classes include the whole field of existing labour co-partnership schemes in Britain, there is a considerable number of plans by which an employee receives shares which are excluded from all of these three classes. The proviso which excludes them is the one mentioned in Part II, Chapter VI, namely, that a majority of the workpeople must be eligible before the firm concerned can be said to exercise profit-sharing or co-partnership. But the restricted sharing of profits

with certain selected employees is quite common in the United Kingdom. This is also the case in the United States, where the number of establishments which share some proportion of their profits with certain of their more important employees greatly outnumbers those in which the majority of employees are eligible for participation.

No detailed statistics of these limited schemes have been collected for the United Kingdom. Several general facts connected with them can, however, be stated. In the first place there is generally a secretive element about them that would probably exclude the possibility of published statistics. This is due to several very practical considerations. Only a small number of the higher employees participate, and if the matter were noised abroad there is always the risk of exciting the jealousy of the excluded majority. In any case if a line has to be drawn it must be more or less arbitrary and the less it is emphasized the better. Again, where the company concerned is not a public one and has to meet severe competition, potential or actual, it is not in its interests that the amount of its profits be widely known. This has meant frequently that even the participants are not acquainted with the exact proportion of the profits distributed and they are even enjoined not to communicate to each other the amount they receive.

In most cases the scheme includes only the administrative and executive officials in the business. Many of these, by reason of their high office, acquire an inner knowledge and experience which makes them particularly valuable employees. In most cases the desire on the part of the employer is primarily to keep their services in the business. If such a staff official leaves, or starts business on his own account, or, worse still, transfers to a rival, the particular business may be seriously jeopardized. In these cases the profit-sharing bonus becomes a kind of "retaining fee," or, if we wish to be cynical, a kind of "hush money."

Such schemes must not be confused with those in which the basis of bonus computation is not profits but sales or output. These schemes may mean a sharing out of profits, but are certainly not according to profits and are therefore not strictly speaking profit-sharing schemes. A brief consideration of these schemes is attempted in Part IV.

Summary.

In gas companies special circumstances exist favourable to the growth of co-partnership. There is a relative stability born of their economic conditions and not possessed by industry in general. They are subject only to competition from substitutes, have a comparatively steady and assured market, possess a quasi-monopolistic position, and are regulated by statute.

If the rapid modern developments of combination should gather all industries into powerful groups which possess many of the characteristics of gas undertakings, then the growth of co-partnership would be favoured. Especially would this be so if State regulation of monopolies—as seems almost inevitable—were further to heighten the similarity. But under ordinary competitive conditions the introduction of co-partnery is certainly more difficult.

This does not mean that the experience of gas companies is of no value. What will succeed under favoured circumstances is likely only to be less successful elsewhere. It does not become null and void, but the special conditions mean caution in effecting the transfer to general industry.

The co-partnership movement spread very tardily even among gas undertakings, but about ten years ago an outburst of activity resulted in the larger part of the industry adopting co-partnership. The war for a time upset the basis of co-partnership, as it did of dividends, but recent adjustments have restored the balance.

The three types of co-partnership in use in the United Kingdom are represented by the Lever scheme, the Batley scheme, and the South Metropolitan scheme. In all these

cases practically all the employees are eligible for participation. But outside these, a great number of plans exist under which the employer makes some grant of shares to his staff. Limited participation almost inevitably means secrecy and complete details cannot be ascertained.

CHAPTER XIV

LABOUR'S ATTITUDE TO CO-PARTNERY

THE objections of labour may be either fundamental or incidental. The former objections have been to some extent dealt with in considering the attitude of labour to profits. The most articulate, though not necessarily on that account the most representative, section of the labour movement, disclaims vehemently against the whole paraphernalia of reform, which it says if carried out would not alter by one iota the fundamental baseness and iniquity of the wage-profit relationship. These "whole hoggers" have no use for such tinkering reforms as profit-sharing and co-partnership which, they say, are designed to patch up a demoralizing system. "I hate exploitation," says Mr. G. D. H. Cole, "and regard it as an immoral and unclean thing, and people who try to moralize its details while leaving the fundamental immorality of its essential relations unaffected make me angry." These petty reforms, the argument runs, are simply designed to keep the working class in subjection by keeping it in a good temper and mean "no more and no less than stroking a cat the right way is the best trick to make it purr."

In their reckoning, profit-sharing and co-partnership, the scions of an immoral house, stand condemned in their parentage. The question to these leaders of the plebs is not whether in itself it is a good thing, but simply that it tends to perpetuate a bad one. Into the larger question as to the justification of capitalism it is not here our province to enter. The case for capitalism has been very ably made out by Mr. Hartley Withers and certain it is that no one has yet made out a practicable, convincing substitute for the present industrial structure. To criticize and condemn with great show of reason is easy, for even small

boys can throw stones. What we need to do is not to preach revolution but to bend our energies to removing the many blemishes that disfigure what is, in essence, good.

If co-partnership be a move in the direction of progress it should be accepted, developed, and extended. Only by transition can we live while we reconstruct. But the phrase " the direction of progress " is a vague one and only when we give it content can we determine the relation of co-partnership to it. Few will deny that the extension of self-government in industry and the increase of the status and standard of living of labour would be real progress. Does co-partnership promote these?

Properly applied and in the appropriate circumstances we believe that it does. If a sudden and dramatic " boule-versement " of the economic structure is highly undesirable can we find a less disastrous method? It is impossible to erect suddenly and at a moment's notice a new industrial system, simply because some of the materials necessary to the construction cannot be created but must be developed and grown. These things are two in number; first, business ability, second, commercial credit. Each is a plant of slow and patient growth. The first means knowledge and experience, the second stability and power to forecast the future. Any new orientation of industry must preserve these indispensable elements and this can be done only by transforming and not destroying.

Co-partnership is a direct method towards the attainment of these ends. If labour desires industrial self-government, desires to be the hirer of capital and not its servant, no better way of acquiring this absolutely necessary factor in modern industry can be imagined than through the gradual and progressive acquisition of shares in industrial undertakings. Now it would be foolish to assert that employers in introducing co-partnership have had this in mind as the ultimate goal to which they desired it to

lead. But it is the necessary and logical conclusion to all systems of real co-partnership. In varying degrees this has already been realized in certain firms which have practised co-partnership for a long period. The best examples in Britain are William Thomson & Sons, Ltd., Huddersfield; and J., T. & J. Taylor, Ltd., Batley. In France the most notable examples are the Bon Marché, Paris; Leclaire's firm (Brugniot, Cros & Co.), Paris; Godin & Co. (now Colin & Co.), Guise; and Laroche Joubert & Co., Angoulême. In all these cases the workmen employed have a very extensive share in the control, responsibility, profit, and capital of the business. Their organization approximates very nearly to that of the Productive Associations of Workmen but with this important difference, that they have evolved to this stage from being private capitalistic undertakings and have therefore avoided the mistakes in management and in discipline that have exacted such a heavy toll from those societies formed primarily in the interests of the workmen producers.

The attitude of labour towards co-partnery, profit-sharing, and even payment by results admits, however, of historical interpretation. It has been the tradition in British industry for all movements for an increase in wages to come from the side of the workers. Labour has got only what (or a portion of what) it fought for. Nowadays we find, in contradiction to all use and wont, employers coming forward with proposals which mean on the face of them an increase in earnings. Labour is mystified and can trace these proposals only to the same self-interested motives as have traditionally animated employers. For it is a cardinal fact in these matters that co-partnership and profit-sharing have never been asked for by labour, but have always been an employer's proposal. Thus it is only natural, all the circumstances being considered, that labour should look somewhat quizzically at the new proposals. But this attitude, while it may be explained on these grounds, must be justified on others.

Shares v. Cash.

Many of the arguments used against profit-sharing can equally be used against co-partnership. But the new condition that the bonus is left to accumulate in the business rather alters the point of some of the criticisms. The several bonuses paid each year certainly remain too small to exert any great stimulating effect. This bonus, however, is not spent but accumulates in the form of shares and may amount in time to a considerable holding capable of influencing the employee's attitude to the firm. The mere dividend on the shares held by the worker will act in influencing him much as a cash profit-sharing bonus will, with the addition that the dividend on shares is likely to be very much smaller, being merely interest or dividend on the profit-bonus. But in this case the important thing is not the annual dividend but the permanent capital investment. Thus the smallness of the bonus as an argument against profit-sharing tends to lose its force as a co-partnership scheme grows and the holding of shares accumulates.

Again the matter of remoteness loses point in that though dividends are paid only once a year, the employee's holding of stock or shares remains in his possession throughout, and in many cases can, if special necessity occurs, be transmuted into cash. A similar remark applies to fluctuations in the amount of bonus. The dividend may and does fluctuate, but to the worker, who gets only a relatively small amount, the dividend is significant only as a witness to the amount of his holding. Its particular fluctuations are likely neither to stimulate nor depress him. But the variation of the market value of the shares is much more important. Some firms expressly safeguard their workpeople against any loss on this account by an arrangement to redeem them at par, accompanied usually by restrictions designed to prevent the workman from selling his shares, or leaving to obtain their capital value. Thus in many cases the argument

against cash profit-sharing, which points out the unsettling effects of fluctuations, hardly applies at all when this share of profits is held as a permanent investment in the company.

The fact that under most profit-sharing schemes the reward accruing to labour does not distinguish between the lazy and the diligent, and so offers no incentive to effort, applies with almost equal force in the case of co-partnery. But under the latter it is certainly more possible to introduce discriminating differences. A sum of money paid annually or semi-annually and purporting to be the employee's share in the profits soon comes to be looked on not as a privilege but as a right. The worker has been taught that he helped to make the profit and he argues that the share he gets of it is his due, or part of his due. What was at first considered a gift, comes to be looked on as a right. If, say, for a period of five years the workman has regularly received a bonus of £10 at Christmas, he will expect it to be continued and will feel very aggrieved if it ceases. If he holds the Marxian theory that profits are "stolen wages" this is especially the case. But where he gets a share in the capital of the business this is not so obvious. He may, if he argues that capital is simply accumulated profits, reckon that in the first instance labour made them, but still a share of this capital is not so obviously his due as may be a share in the yearly profits he helps to make. Thus it is more possible to introduce the element of deserts when a share in capital is given. It is recognized in the first instance as an "act of grace" by the management and therefore more under the control of the donor.

This fact, that under co-partnership the men feel they are coming into possession of an "extra" on which they have no claim, enables the employer to exercise more discretion and control over its disposition. But this desire to exercise discrimination in sharing the benefits points the way to, the inherent defect in the system. Neither profit-sharing nor co-partnership, based on it can

ever for any length of time act as a strong stimulus to production. The total profits made are not the direct product of the worker's effort; again his share is at the mercy of "the discretion of the management," and the cause and effect relationship between efforts and rewards is remote and obscure where not actually unjust.

Such are some of the economic arguments against co-partnery, but quite apart from these there is a strong opposition in the labour ranks to co-partnery largely because it is viewed as menacing to the vested interest that labour possesses in its trade union organization.

Labour's Criticism.

Labour's main argument against co-partnery is that it sectionalizes the men and endangers the solidity of their unions. Men share in the prosperity of a business, acquire ownership of some of its capital, and therefore cease to have common interests with the rest of their fellow-workers. They are less ready to come out on strike for higher wages while they themselves are suffering no hardships through sharing profits. Indeed they may know quite definitely that a higher wage will simply diminish their share of profits and leave them with no advantage gained. This attempt at broadening the workers' interest is, of course, viewed with suspicion by those who desire much more radical changes. Mr. G. D. H. Cole, for instance, in his *The World of Labour*, refers to profit-sharing as a red-herring drawn across the path of labour. The argument runs in this way. The smooth working of an industry is always to the benefit of the employer but only of benefit to the worker if he secures his rights. To be in a position to secure these rights the worker must be fully organized and quite independent of the prosperity of the industry. If the worker's hands are tied by having an interest in the business it is fatal to the whole purpose for which it is asserted that labour is organized—the gradual abolition of capitalistic exploitation. Co-partnership therefore is represented as

having a bee in its bonnet, and as being an insidious attempt to give labour vested interests in the continuance of a pernicious system.

While this is the main argument advanced against co-partnership, and, if true, is conclusive, other minor criticisms aimed more at present-day schemes are also urged. These are advanced against the machinery of its administration and are not so much meant to expose what we have previously called its inherent defects. It is maintained that the worker gets much less than his due share of the increased profits that may result. His efficiency increases 10 per cent while he gets only an extra 5 per cent on wages, the presumption being that he is entitled to the full amount of the increase. Again it is urged that even where you have workers in virtue of their co-partnership represented on the board of directors, they are always in a hopeless and ineffective minority. This position, it is asserted, far from leading on to the much-desired democratization of industry, rather tends to perpetuate the present capitalistic system by varnishing over the essential distinction between capital and labour and cheating labour of its birthright for a mere mess of pottage.

These arguments, though specious, will not bear examination. They are the one-sided declarations of a partisan. While advocating on the one hand a gradual transition to a new industrial day when democracy will be enthroned, such critics refuse to see in the co-partnership movement the faint light of its dawn. To-day, whatever be the root causes of industrial unrest, the factor that most irritates labour is the appropriation of profit by a small minority of the community, resulting in the mal-distribution of wealth. The disposal of residuary profit is the storm centre. Any attempt at a change over to a new order must begin by a new regulation or division of this much discussed surplus. Various proposals have been foreshadowed, each designed to achieve this. In some cases it is proposed that the profits shall go to the State by nationalization; in

others, that profits above a reasonable minimum shall be expropriated and the culprits fined—Profiteering Act; in still others that the State should employ experts to investigate costs and hence fix prices and limit profits, or again that an Excess Profits or Corporation Tax should be imposed to curb the cupidity of the exploiter. In almost every case this is the windmill at which labour tilts and behind many of these proposals lies a desire to placate labour and so far it seems to justify the attitude of the wage-earner.

Now if there be any merit in the proposal that the State should appropriate excess profit, or again that the consumer should have it handed to him in the shape of reduced prices, there can be no valid reason why the actual producers in that particular industry should be denied a certain share. Thus in theory there can be no real, fundamental objection to co-partnership on the part of the community. There may be, and are, other arguments, but the broad position remains that if it be just and right that outside shareholders get dividends it cannot be wrong that the active producers under certain conditions get a share in profits. If, on the other hand, it be the accepted practice in industry to share the profits among a functionless rentier class, and such a practice is wrong, surely it is a step in the right direction to make the worker a shareholder. To deny this is logically indefensible. He who does not wish to see the present industrial system altered must indeed be barren of ideas; he who subscribes to violent and catastrophic measures can be no student of history; he who refuses to accept instalments of progress, and suspiciously rejects them all as capitalistic devices, is, however much he subscribes in theory to the policy of a gradual transition to a new order, nevertheless an enemy of all solid progress. The only alternative to a complete hold-up of industry, involving utter dislocation of the vast, delicate industrial mechanism, is to accept willingly all attempts and experiments towards a higher level of industrial life.

To say that attempts made to share profits with workers are always designed to destroy the solidity of labour is simply untrue. In very many cases the schemes were introduced with the express sanction and often co-operation of the trade unions. These have in many cases helped to mould and fashion the scheme. That they would do this if they felt that their solidity, and hence their very existence, was immediately threatened is simply unthinkable. The wide application of co-partnery would indeed necessarily have its effect on trade unionism, though not to the extent that many of the systems that labour itself proposes would have. Labour extremists seem to object to any change that spells co-operation and to encourage only those that mean union dictatorship. But surely modifications of structure and function need not mean disintegration. There is of course no denying that the many-sided motives that have induced employers at various times to think of profit-sharing schemes include a few cases where the intention was to use this as an instrument for attacking the unions. Two such cases have already been mentioned. But these cases are entirely exceptional. Nor are there many cases where it can be shown that the worker is defrauded of part of the increase he creates. What the workers' share of profit should be must always be difficult to determine, and there are, at least, as many cases where the worker has received more than any extra profits created. In any case the ideal is to make the worker a shareholder, and if he be defrauded in the amount of his dividend so also must be the ordinary shareholder. This common cause is one of the great merits of true co-partnery.

Co-partnership certainly does aim at consolidating the relations of capital and labour and this is surely greatly to be desired. This pressing problem of industrial relations must be solved before industry can make any considerable progress. Almost every country is faced with this acute question, and it is certain that the nation which first finds a solution to it will dominate the industrial world.

Co-partnership is one attempt of many towards a solution and it seems as if the extreme left wing of labour will condemn it according to the measure of its success. If revolutionaries and extremists believe in the class war, then the more they can widen the gap between the worker and his employer the nearer will they bring the clash of the opposing forces. In such an aim lies its own condemnation and if trade unions are opposed to industrial partnership simply for that reason then they also must stand convicted on the charge of being anti-social. That, in the first instance, the labour representatives when admitted to the position of directors should be in a minority is most desirable. To give them majority control immediately would be disastrous. They have to graduate in the new school before they become fully fledged practitioners.

As for the more specific charge that co-partnership interferes with the operation of collective bargaining, the answer is that it may, but need not, do so. If, in the exceptional cases, profit-sharing schemes were intended as a battering-ram to attack the trade union citadel then certainly these schemes stand condemned. But to magnify the importance of these cases and use them for launching a general charge against all such schemes is entirely unjustified. Previously we ventured to comment on certain shortcomings of the Lever Brothers scheme and recent happenings have confirmed this view.

The following illustrates an unfortunate mal-development which does a great deal to condemn a beneficent movement in the eyes of labour. In June 1920 a strike at Port Sunlight was settled and the men reinstated at their old wages and under the former conditions, but on the question of co-partnership and other such schemes the firm decided that the men's action automatically cancelled participation in them. This presumably takes place under Clause 10, which states that certificates may be cancelled "if an employee shall, in the opinion of the trustees, be guilty of neglect of duty, dishonesty, intemperance,

immorality, wilful misconduct, flagrant inefficiency, disloyalty to his employers, or breach of his undertaking not to waste time, labour, materials or money in the discharge of his duties, but to loyally and faithfully further the interests of the company and its associated companies to the best of his skill and ability, and whether or not he shall resign or be discharged from his employment in consequence thereof." This action on the part of the employer in penalizing the men who went on strike was followed by the passing of a resolution at a meeting of the employees "that the best interests of the trade union would be served by all Lever's employees returning their co-partnership script and refusing to accept any more should it be offered."

Here we have another case where tacitly the benefits of trade unionism were set over against the monetary reward accruing under co-partnership. Under such conditions no scheme of sharing profits will ever succeed and this, as we shall attempt to show in the next chapter, is one of the essential safeguards that must be introduced in inaugurating any participating scheme. But to disapprove of a whole movement simply because one experiment, unfortunately much advertised, has gone awry is not reasonable, especially when it is clear that this is an instance more of the letter than of the spirit of co-partnery.

Summary.

Those who desire to ruin the whole structure do not desire to improve the parts. Co-partnery attempts the latter and is therefore condemned by extremists. This attitude reveals a complete ignorance of the essential fact that the modern economic system is a growth, and even if radically unsound would only die if uprooted. Co-partnery promises a way of pruning off the dead growth.

Real progress means, at least, extension of freedom into industry, self-government, self-realization, destruction of

social distinctions founded merely on owning, and a higher status and standard of life. Co-partnership is one of the essentials to attaining this.

The traditional, but unfortunate, procedure is for labour in quest of advances to ask, demand, and threaten, to which the employer replies by refusal, based on the ground of impossibility, followed by compromise under threat. In co-partnership the employer offers, and this is enough to make labour suspect. This accounts to a considerable extent for labour's opposition.

When prosperity-sharing takes the form of shares instead of cash the position is improved. Shares give the worker a continued interest as compared with the intermittent cash one. The fluctuations and remoteness of payment are secondary to the permanent investment.

Labour extremists maintain that co-partnery perpetuates the pernicious system of capitalism. The reply is that it offers a safe and sound method of so modifying and transforming the present system as to amount in reality to the creation of a new one. It is the way of transition and not destruction. Second, co-partnery destroys the solidity of labour, it has a disintegrating effect on trade unionism. Before this can be admitted as an objection it must be proved that the present form and function of workers' organizations is socially and industrially desirable. But even, leaving this larger question, have not trade unions in many instances accepted co-partnery, and is their conduct explicable if it be the disruptive force asserted?

That the worker may not get his full share of the extra profits produced is no reason for denying the principle but a reason only for modifying the details. Moreover it would be as difficult to prove that the worker has got too little as it would be easy for the employer to show that the worker has received too much. The share is indeterminate until the ideal of every worker being a shareholder is attained, in which case any differential complaint is automatically

removed. The worker must crawl before he can walk, and that he should be at first in a minority on the boards of directors is very desirable. He must learn a great deal quite new to him before assuming full responsibility.

CHAPTER XV

THE CONDITIONS OF SUCCESS

So far the general position has been arrived at, that cash profit-sharing among the wage-earning class is a mistake. Neither in theory nor in practice can it be shown to be effective either in promoting productive efficiency or industrial harmony. The former aim is to be achieved only by an equitable system of payment by results and the latter by some form of democratic control in the workshop. Where payment by results is impracticable (and standardization is daily reducing such cases), a system of profit-sharing may be used as a substitute. Such cases exist in the soap, the gas, and the electric industries, also in the repairing and jobbing trades. Again, where the workman goes to his job rather than the job comes to him, as in building and agriculture, and where variety is great and supervision difficult, as in "chain" stores, there may be some possibility of an effective profit-sharing scheme.

But profit-sharing has by far its strongest claim as an instrument for increasing the efficiency of the management class. Apart from salesmen it is almost impossible to pay discretionary employees by results. They produce directly no material product, they merely give services. Their services are vital to the success of the firm, they co-ordinate the activities of the various groups, arrange the smooth flow of materials from process to process, and generally knit up the business in buying and selling with the outside world. Output or turnover is no real measure of their services, as both these may increase while the firm as a whole is simply piling up debts. The nearest one can get to a suitable guide is the amount of profits earned, and profit-sharing in their case is the best possible approximation to a system of payment by results. This is

strengthened by the fact that managers as a rule have a juster appreciation of the uncertainties of business and can influence greatly, by their individual efforts in preventing waste, the prosperity of the undertaking. Apart from these special cases cash profit-sharing cannot be commended.

Co-partnership.

If, however, the share in profits does not take the form of a vanishing cash bonus, but is given as an actual share in the capital invested, then the position is entirely different. The real merit in co-partnership does not, however, rest in its profit-sharing basis, but in the fact that it makes the wage-earner a shareholder. Co-partnership may be and is arrived at by other avenues, but the merits of the accomplished fact can be considered apart from the means of reaching it.

Viewed in the light of the criticisms against cash profit-sharing, co-partnership shows up well. The investment that a worker may acquire can amount to a very considerable sum. For instance, under the Taylor scheme, a man who had been in the employment of the company for twenty years and whose wage had averaged 35s. a week during that time, received during 1919 in addition, as labour bonus in the form of shares and as dividend, some £1 16s. a week extra to wages. Apart from its possible size there is a subtle psychological difference in the form and periodicity of payment. A cash payment made yearly has a very different effect on the minds of the recipients from the slow acquisition of a real amount of invested capital.

At first sight it might appear that the dividends being remote and small in amount are really minimal sensibles equally with the cash bonus; indeed it might be said that they are more so, as they normally represent merely interest on the cash bonus. But what the workman values is the fact that he is laying up for himself a capital sum which can be realized in case of emergency. The merit

here is akin to that of the "Rochdale plan." To feel self-sufficient every man, like every business, needs an assured income and, second, a reserve fund. The co-operative "dividend" and the co-partnership system alike tend to secure the latter and in this encouragement of thrift lies a great part of their strength.

The workman gains an ever-present possession in the shape of shares. This is subject to fluctuation from three directions. First, the amount of shares to be allotted varies with the profits made for the year; second, the rate of dividend on the shares he already possesses may fluctuate; and third, the market value of these shares may change. It is certainly desirable that labour should not be subject to all these fluctuations. The first and second should, however, be borne by labour, as otherwise the whole co-partnership principle is invalidated. We have tried to show that cash profit-sharing is ineffective when applied to the huge mass of wage-earners and is justified only when more direct and simpler methods of payment by results are inapplicable. But in those cases where it is necessary to adopt it in lieu of a better method, it is fundamental that the worker's bonus be according to profits and therefore liable to variations similar to profits.

But the third uncertainty, that residing in the movements of the Stock Exchange, should not be borne by the worker-co-partner as it is by the general shareholder. This is so for several reasons. The worker's shareholding represents a very different thing from the investment of an ordinary shareholder, depending on the different standards of life. In most cases the sum the worker holds in shares will represent his only monetary reserve, and safety and security will be his first requirement. Again, the necessary uncertainties of business are not clearly realized by the worker and a sudden depreciation in the value of his holding is to him inexplicable and consequently irritating and disappointing. The temptation to sell out when his shares are at a premium would destroy the co-partnership principle, and

if he is not allowed to benefit by appreciation he ought not to be called on to suffer from depreciation. Lastly, the worker-shareholder is called on to keep his shares simply in virtue of his employment; he must therefore be offered a sufficient inducement, and this most readily takes the form of security and stability of value.

The Primary Conditions.

At a time like the present, when the industrial world is in a ferment of unrest, and violent, catastrophic changes are advocated from the soap-boxes at every street corner, one must in a cool hour think straight about these facts and come to some conclusion as to a way out. The greatest hope of a time of peaceful progress and transition lies in the co-partnership movement. By means of the extension of this movement alone can the just aspirations of the millions of wage-earners be realized and all that is good in the leadership and personal initiative policy of the present system be preserved for future generations. It can equally be a path across the Red Sea of revolution and at the same time a means of reconciling interests that at present are opposed. But to accomplish this the movement must be built on a sound basis and allowed free development.

The sound foundation must mean that three elementary conditions are observed. First, the whole scheme must rest on a perfectly definite and detailed plan mutually discussed and agreed upon by the accredited agents of both parties. It has frequently been urged both in France and in this country that the State should draw out a national scheme to be made obligatory in industry. Alternatively it has been suggested, as by Lord Robert Cecil, that the State should make the establishment of a co-partnership scheme a condition of government assistance and use for propaganda purposes the opportunities presented by its conciliatory activities in industrial disputes. There is practically nothing to be said in favour of the compulsory method.

The Bill embodying this idea introduced into the French Chamber of Deputies in 1910 was dropped after the most careful consideration of its proposals, which in this case had special reference to the coal mines. To make it a government enactment is certain in Britain to ruin the chances of its success. Nor is the second proposal to be recommended. Unless the movement by the weight of its own inherent soundness makes its way in industry, it is not likely to do so as a government recommendation.

But while the adoption of co-partnership must be left to the free play of individual initiative, the details ought to be mutually agreed on and then made perfectly definite and clear. The difficulty here is that it is the employer who makes all the concessions and he is naturally not disposed to enter into an agreement limiting his power while being assured of no tangible return. It is this position which has meant that so many of the details of the schemes have been left "to the discretion of the management," with no greater backing than a vague moral obligation. Where possible, the agreement should be not only explicit but bilateral and legally binding on both parties.

Again, for co-partnership to be a real influence in the industrial circumstances of the day, the full market or standard rate of wages must be paid. There should be no pitting of the co-partnership benefits against those of labour organization. Even if the former promises a much bigger return there should also be embodied a guarantee of union rates. It is not enough that the wage paid plus the co-partnery increment should represent a larger sum than the standard wage. This simply means, from the trade union point of view, that the men employed by that firm are not likely to join in common action to increase wages and this threat to the solidarity of labour is enough to condemn the scheme. The co-partnership shares and dividend must represent an addition over and above the normal wage paid in the trade and district.

Lastly, such benefits must be substantial and not insignificant. It is not possible to estimate this in its money equivalent, but in average years it should be planned so as to amount to, at the very least, a capital sum equivalent to an additional three weeks' wages per annum. Again, and this may seem a hard saying, if profit-sharing be the basis, the alternative of taking the bonus in cash or in shares should not be allowed. The worker should be free to participate or not in the scheme but if he chooses to join he must take the bonus in shares This the management is entitled to insist on, as after all they are the donors. It has been demonstrated time and again that if an option be allowed the worker is very likely to simply discount the future and take the cash.

The Secondary Conditions.

In the above account it is taken for granted that the co-partnership scheme is founded on a profit-sharing basis. This, of course, is not necessarily the case, as already many firms offer inducements to their employees to contribute from wages sums to buy shares in the undertaking. In many ways this is preferable to the profit-sharing basis. It does away with the necessity for dictating to the workman the form in which he must take his bonus. If co-partnership be aimed at, there seems no escape from the fundamental paradox of giving a gift in a form, i.e. with a purpose. Soon the recipient comes to expect the gift, that is, to consider it a right, and naturally wishes to dictate its form. This has been evident recently in the action of trade unions in insisting on the option being allowed between cash and shares. Thus the co-partnership principle is lost. This is the direct result of founding shareholding on a plan which puts the workers in a class by themselves. For in general, co-partnership schemes should aim at consolidating the worker among the general body of investors and not granting segregating conditions such as making him the holder of a certificate or of any special class of script created

purely for him. He should as nearly as possible be made an ordinary shareholder. The minimum of reservations is the ideal. The more the workman finds that he has common interests with the general body of shareholders, and that he benefits or suffers along with them and in no wise distinct from them, the more likely is the scheme to be satisfactory. But the mere fact that the workman becomes a shareholder solely in virtue of his employment and not because investment is his business, renders the imposition of extra conditions both possible and desirable.

First, shares should not be gifted to the employees. This is charity and socially undesirable and also ineffective as a stimulus to industry. The better method is to grant the profit-sharing bonus in this form, or to make the scheme a contributory one, at the same time offering special inducements. These inducements can take a variety of forms, shares standing at a premium may be issued at par, dividends may be paid to capital account on allotment, or a profit-sharing bonus may be given to employee-shareholders. Reasons will be given later why it is probably better to found co-partnership on such inducements rather than on a profit-sharing basis.

Second, the employee should be encouraged to invest in ordinary rather than in preference shares. While these workman-shares should have a prior charge on the assets, and be redeemable at par, it is not desirable to sacrifice everything to stability. Unless the worker feels that the firm's prosperity is immediately reflected in the dividend he receives, there is no tie to knit his interests and efforts to the business.

Third, following on the above, it is expedient that the employee-shareholder should, as far as possible, line himself alongside the other shareholders and that he should acquire the usual rights and duties. As an ordinary shareholder he should, subject to holding the required quota of shares, be entitled to speak and vote at the general meetings. Only when he has some control over what he holds can he

realize his ownership as real. And it is not enough to give him control merely in virtue of his employment: he must be given the same kind and degree of control as the other holders of the company's capital. And it is here that profit-sharing as the basis of co-partnership fails. It puts into the hands of incompetents shares which normally carry a control they are unfit to exercise.

Fourth, the employee cannot in the circumstances be allowed the same freedom of disposal of his holding as the ordinary shareholder. Otherwise it is extremely likely that the bait of a small rise in the quoted value of his holding will induce him to sell out. Alternatively, as this holding may be his only reserve fund, he may find himself compelled to realize during a slump. Both these misfortunes, one to the firm the other to the worker, can be prevented by making it a condition that the workman must not part with his holding, or alternatively inducing him to hold on by an extra rate of dividend. Provision should in all cases be made to enable him to cash his shares in an extreme emergency, or some six months after leaving the service, or on his retirement.

Fifth, the whole scheme requires a high degree of courage on the part of the employer. If dividing a large sum into a thousand parts leaves very little for each, the multiplication of a small holding by the number of employees may represent a large share of capital. There is a great danger in imposing any limit to the total number of shares employees may hold. Sooner or later this limit may be reached and to make it operative imposes injustices on the qualifying members. These become vocal and the limit is extended and so on until it may be that the operatives become the majority shareholders. Co-partnership in the United Kingdom is of very recent growth and consequently very few instances exist where private businesses travelling along the path of profit-sharing have arrived at co-operative production. Only in two cases do employees hold over 50 per cent of the capital, in one

case they hold 20 per cent, and in the remaining cases they hold only from 2 to 6 per cent. To limit the number of shares each employee may hold is a more just procedure than limiting the total number of such shares. But even this individual limit must be more or less arbitrary. If the co-partnership plan is erected on a profit-sharing basis, it seems possible that in time the employees may come to hold a large proportion of the capital. Just as capital originally represented accumulated savings mainly out of profits, so the workpeople, the greatest potential savers because individually the smallest spenders and consumers, may out of their profit-sharing bonuses eventually come to buy out the external shareholders. In modern industry, capital and still more capital is absolutely indispensable, and if it must be preserved and multiplied and the antagonism between its present holders and those it employs is to be broken down, the only possible method is to spread it among the wage-earners. Narrow limits in the proportion of the total capital the worker can hold, or in the extent of his individual shares, are bound in the end to prove irksome even when not obviously unfair.

Mal-administration under Co-partnership.

As the ideal is that the worker should as far as possible be under no other restrictions than the ordinary shareholder, he should also have the voting rights of the latter. But this introduces a difficulty such as we saw confronted the management in the Taylor case. A profit-sharing bonus is not selective of capacity to control. It may place shares in the hands of those who have no business knowledge or experience. If for no other reason than mere proximity they are likely to attend regularly and in large numbers the shareholders' meetings. One can imagine such a meeting with a large number of workpeople present, including women and boys, and capable by their voting power of dictating the policy of the firm. Their point of

view will be not so much that of shareholders concerned with the stability and future prosperity of a competitive business, but rather that of wage-earners whose weekly subsistence is derived from the business. This condition of affairs arises because the shares which conferred voting power on them automatically accrued by reason of profits and not because they were desired with a clear consciousness of the responsibility involved. Hence, wherever a question involves an opposition of wages to profits, the former will be the paramount consideration and this may readily give rise to the advocacy of all sorts of ridiculous and suicidal policies.

Mr. J. J. Mallon has drawn attention to another possible result of co-partnership. He said it if were applied in all the great industries it would mean "that at every stage workers and employers would be organized for the exploitation of the community and there would be a great many strong and hostile groups." At present there are three main groups whose interests are frequently at variance—employers, workers, and consumers. Co-partnership, Mr. Mallon admits, will knit up the interests of workers and employers and so help to remove the great and at present the most acute and destructive antagonism which besets modern industry. That in itself would be a gain worth much sacrifice. But the two in combination would exploit the consumer, presumably limit output, and raise prices and profits to a maximum. The supposition is that this is not being done, otherwise it can be no new evil. But already this evil is in our midst. The report of the Committee on Trusts, issued in 1919, and the subsequent reports made of investigations into particular industries amply confirm the view that monopolistic power over many essential commodities is already in the hands of small groups and in some cases these groups are actually using this power to exploit the consumer for their own profit. At present the capital-owners have the power—a more concentrated and autocratic form of power than when capital

is diffused—and this power is certainly used to secure maximum profits which, of course, may not mean maximum prices. Except that a larger body will have the same immediate interests, and in so having will abolish a more blasting antagonism, it is difficult to see how this power to exploit the consumer would be strengthened by co-partnership. The case would be different if labour had consistently used its power to reduce prices. The normal attitude of labour has been to claim a share in prosperity through increased wages and not to reduce profits by reducing prices to the consumer. There are clear signs that the worker is getting sick of the never-ending pursuit of wages after prices and is turning round to a new policy—the increase of real wages by reducing prices—as in the miners' recent attempt to secure a reduction in the price of domestic coal.

This approach to a statesmanlike view of the whole problem is an augury of how the consumer might be expected to fare in the hands of a class of workmen-shareholding-consumers. One hundred thousand employee-consumers might find it to their private gain to hold up the remaining forty odd millions to ransom, but twelve million workers, representing thirty millions of the population, would have no such inducement. Apart from times of abnormal scarcity, as since the Armistice, it is hardly likely that as long as British ports are open any home producer will be able, or being able, will be permitted, permanently to exploit the consumers.

If, therefore, there is no reason to suppose that the consumer would as a class, or rather as a function, suffer more than at present at the hands of the same class exercising the function of production, the possible exploitation would have to take the form of industry against industry. Would the workers, say in the cotton industry, having much to do with settling their own wages, raise these to a maximum and consequently force the workers in other industries to pay ransom prices for their products? On

this assumption we should have each industry striving after maximum wages and exploiting as far as within its power its economic position. The first result would be a huge difference as between different industries in the amount that a skilled mechanic or tradesman could earn. Those industries sheltered from foreign competition would yield high wages, those subject to it might bear only a minimum wage and would suffer from severe unemployment. This would certainly shake the whole solidarity of the labour movement; it would mean reorganization on an industrial instead of a craft basis. Nevertheless it would be an equally possible happening under guild socialism, or any system which gave the worker some real control over the commercial activities and financial arrangements of his industry. The present development of trade unionism is rapidly putting into the hands of the worker this crucial control but without the sobering knowledge of the whole mass of mobile conditions which dominate the industry. The worker, at present, has to guide him nothing more than the assertions of his employer, whose word in a controversy is discounted before it is uttered and disbelieved when it is. Only the full, clear, daylight knowledge of economic facts will educate the worker to recognize the limits of his demands. And co-partnership by giving real ownership, followed by real control and responsibility for the thing owned, is an open door out of the stuffy, over-heated room of commercial and industrial strife.

Control under Co-partnership.

Two methods of control are in actual use to-day. Either the employee-shareholders get the ordinary rights of voting at shareholders' meetings with possibly the right of electing one or two workmen-directors, or a special co-partnership committee is instituted as a medium for expressing their special points of view. The first system alone is quite inadequate to meet the needs of the case. For one thing the shareholders meet only once or twice a year, often at

some distance from the works, and the business is largely formal. In the case of two gas companies and in four other cases in the United Kingdom, employee-shareholders are represented on the Boards of Directors. This method of expression is again not adequate to meet the circumstances. For one thing it is too direct; many of the suggestions, complaints, claims and proposals are too vague or too insignificant to be a fit subject of discussion at a meeting of directors. While it is useful to have direct representation on the supreme tribunal, some secondary, less formal and more open platform for the expression of opinion is also necessary.

This is provided by the formation of a Joint Committee. This committee should not be merely consultative, for if so, it is very apt to become anaemic. It should have real power and real responsibility within, of course, the limits of its function. Such limits are fairly obvious and should centre round the operations of the co-partnership scheme. Power to deal with the administration of the scheme, or with such difficulties and differences of opinion as are bound to arise from time to time, or with the disposal of funds, or with the general welfare and working conditions of employment should be vested in such a joint committee. This committee will be quite distinct both in composition and in function from a works committee; it is a committee of co-partners interested in the retrospect and prospect of the undertaking as a whole with special reference to the share accruing to the workers. Questions dealing with wages, hours of work, overtime, should be dealt with by a committee more representative of the labour organisations, while all social activities should be regulated by a committee appointed irrespective alike of co-partnership and trade unionism. Of course, in works where the general body of workers are both co-partners and trade unionists this multiplication of committees is quite unnecessary, but until this is so, separate committees are best.

Summary.

Where profits are the only measurable results cash profit-sharing may be used successfully to promote efficiency. As a means of promoting harmonious relations co-partnery is much preferable. Under it the worker can acquire a considerable reserve fund immediately available in case of urgent need.

Real co-partnery implies a sharing in the good and bad fortunes of the business, but certain risks the workman should not be asked to bear. He should be guaranteed the return of his capital and his risk confined to the fluctuations of profits as it affects first the rate of, and second the dividend on, his accumulation.

A co-partnership scheme, to be successful, should be founded on a plan mutually agreed upon and embodied in a perfectly definite agreement. Trade union rates of wages and conditions of work should be recognized and no attempt made to pit the advantages of the one against the other. The advantages of co-partnership should be substantial and the minimum annual award should amount to three weeks' wages. Lastly, if on a profit-sharing basis, co-partnership should be made obligatory and not optional.

Only the minimum of differential conditions should be imposed. This means the maximum of identity with outside stockholders and an easy transition to ordinary conditions when justified. The gifting of shares—apart from special cases as to ex-soldiers—is not to be commended. Ordinary shares carrying the usual rights are the most appropriate investment for workers. Greater security or extra dividend should be offered in exchange for continuous holding.

Where profit-sharing is the basis of co-partnership and voting power therefore automatically acquired, it is possible that it may be unintelligently used. The coalescing of the interests of capital and labour in co-partnership may lead to both exploiting the consumers. But this possibility

is more menacing at present when power is rapidly becoming centralized into combinations and monopolies. The workers' control should be exercised through the ordinary voting rights of shareholders and secondly through a co-partnership committee.

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PART IV—
OTHER METHODS OF SHARING PROFITS

CHAPTER XVI

COLLECTIVE OUTPUT BONUS SCHEMES

It may seem at first sight that a bonus on collective output is not a method of sharing profits with employees but is simply a particular system of payment by results. There is much to be said for this view. The important matter here, however, is not the particular category into which an exact analysis would show the scheme ought to go. The fact remains that such schemes are associated in the popular mind with profit-sharing, if not as a contrast, then as a substitute, and no attempt to cover the ground would be complete without a reference to them. This is especially so because collective bonus schemes have grown rapidly of late years, and to-day they are in use in over fifty establishments in the United Kingdom.

The direct labour-cost of the finished product varies greatly in different industries but is usually between 30 to 40 per cent of the total cost. In cheapening the product or in increasing the profit, labour has only this proportion on which to work. If so, it is urged, why should labour be compensated according to the efficiency of the other factors that contribute the major share of the cost? If labour's contribution to profit can be made only by means of output surely this should be taken as the criterion of the worker's remuneration. On output labour has direct power, and if paid according to its exercise of that power surely the stimulating effect of earnings is greatest.

This argument, however, has the defect of proving too much as it goes beyond the conclusion it is used to establish. It points unanswerably to payment by individual results

and not collective results. For it is self-evident that each individual has control over only his own output, and to pay him according to what he is personally responsible for is to provide him with the biggest possible inducement to augment his production. Only where this is impossible or inexpedient should recourse be made to a bonus on collective output. The unusual argument has been advanced that a comprehensive bonus is preferable to an individual one because it provides that the standard to be achieved is in machinery or other products actually finished and dispatched and not in details only. The vision conjured up by such a claim is that under individual rates, the balance of production may be entirely unsettled, and the components produced out of relation to the number required in assembling the finished article. This, of course, may be so and if so the management is at fault and not the system whose defect here seems to be that it over-stimulates production. Judged solely from the point of view of industrial efficiency, a collective bonus is likely to promote output more than a system of profit-sharing will, but less than a system of payment by individual results.

But, apart from its comparative inefficiency, a system of collective bonuses on output has been said to suffer from several grave defects. These may be grouped briefly under the following heads—

(1) It is unjust to the diligent.

(2) It stimulates only when novel.

(3) It leads to sporadic outbursts of activity designed for window-dressing.

(4) It emphasizes quantity not quality of output and consequently means waste of materials.

(5) When profits go it is bound to fail.

The argument that a collective bonus is unfair to the more industrious has not always been considered a defect in the scheme. It is maintained that as the more conscientious are brought to realize the effects on their earnings of the slacking by others, they take steps to see that no

one remains a mere passenger in the scheme. Each man becomes a foreman to his fellow. But this accepts the fact of injustice to some, which injustice may, or may not, according to circumstances, redound in the beneficial way suggested. If it does take the form of chiding the sluggards it is maintained that the delinquents are more likely to respond to an appeal by their work-mates, or by the shop committee, than they are to give ear to the criticisms of the management.

The weight to be attached to this remedial process must depend on the extent to which a team consciousness has been developed. This is never the product of a wage-system. No change merely confined to the financial relations between the employer and his men will ever create this. It is a matter of the spirit and not of the purse. For this reason it is evident that a method of remuneration which has produced excellent results in one business may be an immediate and deplorable failure when transferred to another, simply because the spiritual soil which nourished it in one place was absent in the next. Thus it would be a great mistake to suppose that a collective bonus necessarily carried with it a team spirit. If so, the merits of unequal financial remuneration in leading to the stimulation of the sluggards must depend on factors other than the mere existence of a collective scheme.

The problem of developing a group or fellowship spirit is primarily one of management and personality, but certain structural characteristics assist or retard its growth. The most obvious is the size of the unit. The smaller the unit in size, the easier will it be, other things being equal, to develop a communal consciousness. In the growth of modern industrialism we lost unknowingly a priceless industrial asset. Previously the working man served a master, now he merely works for a company. The re-incarnation of this spirit is furthered by the smallness of the unit. Second, besides being a small unit it should also be a selected one. Where efficiency differs widely injustices

are severer. If the labour be selected and when selected trained, this would go far to establish uniformity of achievement and consequently justice in remuneration.

It is of the utmost importance to the success of any industrial innovation that steps be first taken to create an atmosphere favourable to its development. Fair, open and just dealing, combined with mutual discussion of problems, is the best guarantee of an atmosphere of confidence and good-will. Preparedness to make sacrifices is the most obvious proof to the worker that he is being justly treated. This atmosphere, in which alone a hive spirit can develop, may be already in existence in a works due to past dealings, or it may be created, promoted and furthered by the discussions antecedent to the introduction of a collective scheme. Hence, in nearly all the cases where such plans have succeeded the workers have been taken fully into the confidence of the firm with respect to the new proposals and have thus come to regard the scheme as partly their own and to feel so far responsible for its successful operation.

Where this has been done it has been found that the diligent have not been content merely to blame the management for the disproportion between their efforts and their rewards but have themselves directly tried to rouse the drones in the hive. But where the scheme has been merely admired in its operation in another undertaking and has been taken over, copied slavishly and then thrown into the workshop in the expectation that it would prove an equally serviceable antidote to lethargy and discontent, it has without exception proved a miserable and costly failure. It has bred jealousies and bickerings, has ruined production, has led to severe criticisms of the management, has killed initiative and discouraged effort. In such circumstances it most certainly justifies the argument of injustice.

The Other Objections.

It stimulates only when novel is the second charge brought against the collective bonus scheme. This,

however, is not a charge peculiar to this type of scheme. Indeed, it is true to say that no final judgment can be passed on the merits of any industrial innovation that involves human relationship unless the scheme has been "tried out" for at least five years. A new suit may be a perfect fit but may not wear well. It is the presence of wearing qualities that can be revealed only by continued use in practice. This will subject the new plan to strain and tension from many different directions, and only when it has successfully withstood them can we be certain of its entire suitability. This is an important point to be kept in mind when we have paraded in front of us the merits of such a very youthful scheme as that of Priestman Bros., Hull. The Higher Production Council would have been well advised to select some of the older collective bonus schemes to demonstrate what it considers the efficiency of this method of remuneration.

For instance, some twelve months before the Hull plan was adopted, a scheme similar to it was adopted by Messrs. Thwaites Brothers, Ltd., Thornton Road Works, Bradford. The increase of output obtained was, strangely enough, exactly similar to that which resulted from the Priestman scheme, namely 40 per cent. But the skilled workers were disappointed with their proportion of the extra award and an individual piece-work system was substituted for the collective bonus. The result was an increase of output amounting to about 200 per cent over that produced under ordinary day-work. It is only fair to the Priestman Scheme to record that previous to the introduction of their collective bonus, piece-work existed in some of their departments. The workmen, with the exception of the boiler-makers, were in this case so favourably disposed to the new plan that piece-work was discontinued.

It may be stated in general that any new system which promises an increased remuneration to the worker will stand a great chance of being accepted by the immediate

beneficiaries, while it will be left to the official representatives of labour to point to undesirable ultimate results and to advise the workers to stand aloof. Priestman Bros., in introducing their system in 1917, gave to all their workers a 10 per cent advance in day-wages irrespective of output. Probably this was an excellent way of overcoming initial difficulties, but from our present point of view such a gift was likely still further to mean an added attraction in the novelty and an uncritical acceptance in the first instance of the scheme. This guaranteed increase over standard rates would also attract the best workmen from outside and part of the increase of production may be thus accounted for. It may also prove prejudicial to the general interests of the industry and has, in actual fact, been objected to on this ground.

Any system of payment which remunerates a whole series of services in proportion to only one of them, must lead to undue emphasis being placed on the calculated factor. The services a workman can render to his firm include good time-keeping, saving of waste in lighting, raw materials, tools and machines, the production of a good quality of work and, lastly, of an increased quantity of work. If he is paid solely on the last factor, whether by individual or collective results, it is natural that he will tend to concentrate on the paying element. Urgent work not in an advanced state may be neglected in favour of work nearly finished which will immediately affect the output figures.

Akin to this is the objection that payment for output leads to the deterioration in the quality of work, and also to carelessness and negligence with the other property of the firm. This objection, like the former, is one directed against payment on output and not specifically against the collective estimation of that output. It therefore applies equally whether individual or joint production be the unit. Also it is not fundamental and can be removed by granting subsidiary awards for economy of material and saving of waste.

A more ultimate objection is that which urges that the team bonus system is bound to fail when most required, i.e. when profits diminish. The argument seems to be that as the workers are paid for output and the selling price of that output has no direct relation to its cost, the employer may find his profits gone and still have to pay a big collective bonus to his workers.

This argument is fallacious. Collective bonuses on output cheapen the cost of production per unit. The worker is remunerated for what he produces over the standard, but not in such a way as to render the last units produced more costly to the employer than the first. The overhead charges are distributed over a bigger volume of production and the cost per unit, even after the bonus has been added to wages, is less than if no extra output had taken place. Thus in the struggle for markets, the shops working under the old time-rate conditions would be unable to meet the competition of those working under collective bonuses. The latter would rather tend to conserve profits owing to lessened cost of production. In essence this argument is simply one for the "restriction of output" as a remedy for over-production. But here reduced output, involving the abolition of a spur to production, means increased costs per unit and therefore still further reduces demand. Even, however, where collective bonuses are paid profits might disappear. But it is important to notice that this can happen only in spite of the collective bonus system and never because of it. Of course, if the amount of the bonus was wrongly adjusted so that no advantage accrued to capital (an unlikely happening), it might be the actual cause of the failure of a business. But this outrages the very principle on which the bonus is claimed to be constructed. Its economic justification in the eyes of its advocates is an advantage to both parties. Thus the crude argument that a comprehensive bonus on output must necessarily diminish profits is quite false. To say that when profits disappear

it is bound to fail is a ridiculous statement; it is much nearer the truth to assert that if profits, over a long period, are non-existent the business itself must disappear.

The Claims of Group Bonuses.

The first and most important is that it introduces a spirit of co-operation into the workshop. "Never in the history of labour have employer and employee worked so amicably together under any scheme," says a foreman in Priestman Bros. "We have now a combination of interest instead of an individual outlook, and nothing tends to make work a greater pleasure than to think that each of us is helping one another." This is probably a just statement, but one swallow does not make a summer. The immediate and the ultimate effects of any innovation may be entirely different and even contradictory, especially so with stimulants, and until the scheme has completed its trial trip no statement can be taken as final on the matter. Second, confidence and co-operation are never the products of a cold-blooded financial scheme. They are the fundamental antecedents of any and every successful industrial innovation, a successful scheme presupposes them and often presupposes little else. A scheme may be unsound, mistaken, and even positively unjust and yet be apparently successful. If we take the success of any individual scheme as illustrating its universal application we shall find that entirely diverse and contradictory innovations have each on these grounds of practical individual success proved their claim to general use. The Higher Production Council would have done well to remember this before advocating the Priestman scheme as one immediately applicable "to all the great industries."

But the management of Priestman Bros. have a more just appreciation of the factors that have so far contributed to their success. The success of the scheme, it is stated, has been "largely due to the readiness on the part of the management to give information to the committee as well

as to the accuracy of the statements placed before them. It is essential to the successful working of such schemes that frankness should exist on both sides, and under the circumstances confidence is readily maintained." There is hardly any new idea in industry which would not succeed for a time when backed by such mutual goodwill. There is good reason to believe that on a close analysis the success of the Hull plan is due not so much to its intrinsic merits as to the antecedent atmosphere in which it was born. In summing up we may quote the words of a T.U. delegate. "If I might venture to express an opinion," he says, "why your scheme is so successful I should say it is due to you starting with honest and fair intentions which gained the confidence of the men."

Another argument advanced in favour of the team output bonus is that by means of it the workshop becomes a microcosm of the business. The worker is lead in his own interests to study the larger problems of production. As the joint output is the basis of his remuneration he has to consider his unit as a whole. The orders that come to his department, the supply of raw materials and accessories, the tools, machines and equipment, the lighting and ventilating appliances, the flow of materials through the shop, the health, comfort, time-keeping and general efficiency of his mates, and the skill of new employees are all matters that directly affect each individual's earnings. This larger interest is greatly to be desired and would certainly justify considerable sacrifice to attain it.

But this still falls far short of making the workshop a microcosm of the whole business. Output under this fellowship system of bonus awards, still remains the sole direct concern of the worker and the management have many problems to wrestle with quite outside this sphere. The whole array of questions concerned with the buying of the raw materials, and the marketing of the finished product, and generally the financial side of the undertaking are still outside the direct personal interest of the employee.

Theoretically the only way completely to interest the output producer in the whole industrial and communal fortunes of the undertaking is to share capital and consequently profits. But this demands complete frankness and openness and, above all, as the fundamental condition of its success, a measure of real vital controlling power. No concessions short of these will induce labour to invest its leisure and interest in the business by which it lives, for to do this is to embark on a hard task which only prolonged study can achieve.

To-day the workers flock in their thousands to see a football match. They do not themselves engage in the game but the spectacular attractions are sufficient to invite and retain their interest. The game of business can never become equally attractive. The worker is, however, *in* the game but at present he is in too remote and uninfluential a corner to call forth his wider interests. He is merely a wage-taker; as such his labour organizations have gifted him with enormous powers, but these powers are exceedingly narrow and lop-sided and may, just because of this, work untold harm to the general health and well-being of industry. This they are doing every day, and the battering-ram of trade unionism, assailing as it does our industrial system with its considerable defects and many virtues, bids fair to reduce the whole to utter chaos and ruin.

The remedy, which can never be a heroic one, is to understand completely the architecture of the structure which requires to be altered but which only to our own deep disaster can we destroy. The worker at present sees only what he is allowed to see, and even when he sees and understands, he cannot speak constitutionally. He therefore leaves the matter alone, and concentrates with excessive and destructive vehemence on his own immediate personal interests. The collective bonus system is not calculated to be the parent of the wider interest; it means no elevation in status. The present industrial impasse calls for some bold progressive innovation which will commend itself

to both parties, and which, with mutual co-operation can be used to elevate the status of the wage-earner to that of partner, and consequently oust the autocratic and substitute the democratic control of industry.

Summary.

A bonus on collective output is perhaps more a method of payment by results than a means of sharing profits. Recently it has been proposed as a rival candidate to co-partnership for acceptance, and this makes some treatment necessary.

Labour has most control over output and should therefore be rewarded according to output. But a collective bonus is based on pooled output and, unless the elements contributed by each individual are indecipherable, it seems simplest and most direct to reward each according to his individual effort.

Otherwise as contributions are never uniform it means penalizing the exceptional workman and rewarding undeservedly the sluggard. It is replied that the sufferers stimulate the slackers. It is just as likely that they irritate them. The yoking together of diverse capabilities in the harness of a uniform bonus may be the cause of endless friction and, in certain cases, has been so in practice.

The acceptance by the workers of such schemes has been facilitated by the granting of special increases in wages irrespective of output. This, while it may explain their acceptance does not guarantee their continuance, and a more lengthy experience of such plans is desirable before judging as to their suitability. Theoretically wages should not be based solely on quantity of output but also partly on its quality and economical production.

The introduction of a team bonus does not necessarily create a team spirit. Indeed such a spirit is the essential antecedent to the successful introduction of any collective system. The spirit comes first and is not created by its consequences. This applies to much more ambitious schemes than collective bonuses.

Again, even if interest rather than friction results from focusing attention on the collective production, this does not mean that the worker adopts the active shareholder's point of view. He still remains a mere wage-earner; so whatever effect such a bonus may have on efficiency it certainly fails to effect any improvement in the worker's status.

CHAPTER XVII

SLIDING SCALES

In Part I, Chapter III, the sliding scale was advocated as a means of regulating wages according to cost of living. The purpose of it was to keep real wages constant and independent of the promiscuous fluctuations of general prices. For the wage-earner, with his relatively low standard of living, the important thing was the commodities he could purchase. The mere tokens bearing nominal face-values were of significance to the worker solely for what they could buy. To stabilize what they will buy was possible only by tying together the movements of prices and wages. By no other means could the wage-earner be guaranteed the maintenance over a period of the standard of life he had achieved. Unless this was assured, the worker might find himself building on shifting sand and the higher he built his wage in monetary tokens the more it sunk into the sands of rising prices. He advances, but only on a treadmill. Purchasing-power, i.e. real control over commodities, is the only true measure of wages.

This stabilization of real wages through the use of the sliding scale, is designed to secure to the wage-earner a permanent supply of want-satisfying commodities. The sliding scale we propose to deal with in this chapter is designed rather to enable him to share in the profits of the undertaking. In the former case the worker is considered as consumer, while in this case the worker is taken in his capacity of producer. Hence, instead of taking the general index number of prices as the criterion of wage fluctuations, the particular selling price of the commodity he produces is taken as the base.

This system is in most common use in the iron and steel trades in Britain and has certainly done a great deal to

promote industrial peace. To a more limited extent it has also been used in the quarrying and mining industries, but in these cases the results have been less satisfactory. Usually an explicit agreement is entered into by the representatives of both parties, and it continues in force until it be terminated by either party giving three months' notice of its intention to withdraw. The schemes differ in detail but the following is typical. The average net selling-price per ton realized at the makers' works for steel plates delivered during a period of three months is ascertained by a public accountant, who is mutually chosen, and this constitutes the basic or standard price. Each complete pound is subdivided for the purposes of the scale into 8 steps of half-a-crown each, and wages fluctuate so many steps of 1¼ per cent each on the standard rates, i.e. for every 2s. 6d. increase in selling-price wages are advanced 1¼ per cent. Sometimes quoted prices are used as the basis of calculation, and under the various schemes different percentage advances are given according to the nature of the finished product. In a survey of eight of these schemes it is found that they increased the wages of labour during a period of ten pre-war years by an average of 33½ per cent, and that during the war period the advances gained on standard rates by the operation of the scales averaged 95 per cent. It has to be noticed in passing that this latter figure—much less than the increase in the cost of living—is so low because in some scales a maximum figure was fixed and once this was reached the workers have been compensated by war bonuses, and secondly, the Government, in controlling firms during the war, interfered with the basis of some of the scales.

It is claimed that not a single hour was lost during the war by fighting for wage advances in any iron and steel works in Great Britain where a sliding scale was in operation. It is also claimed that previous to the war they had proved successful in practice over a long period and had given satisfaction to both sides.

The Advantages of the Sliding Scale.

Most of the merits of the sliding scale method are due not to the fact that under it wages follow the fluctuations of the price of the finished product but to the fact that the prices of all commodities tend to move in unison. Normally the selling-price of any important commodity in general use, especially a basic commodity, is a rough index of the rise in general prices. This has meant that wages in the trades using the sliding scale have roughly kept pace with the rise in the cost of living.[1] If the commodity whose selling-price was the basis of wages had not risen in price or had actually fallen, or had risen much more slowly than general prices, then the sliding scale would have been destroyed. Only while the particular commodity selected remains a true index of commodities in general can the system be sound and just in its operation. For instance, those industries manufacturing luxury commodities with their relatively more elastic demands and consequently more variable price would find a sliding scale of this description exceedingly difficult to apply. In general it may be said that the further we move from basic productive goods towards luxury goods directly consumable, the greater would be the difficulty.

Again, the sliding scale system gives the working men the idea that they share in the industrial prosperity of the undertaking. This additional remuneration, assuming ordinary competitive conditions, does not when first applied affect the selling-price, it is a result and not a cause of that price. Had it not been paid to them it would equally have been received by the employers as extra profits. These the workers share in receiving the percentage addition on their wages according to the extra price received for the product. There is therefore an element of profit division in the scheme, and the employee cannot feel that

[1] This is verified by a comparison of the general index numbers and the fluctuations in the wages of Cleveland blast-furnace men from 1880–1910 as given by C. M. Lloyd in his *Trade Unionism*, pp. 96–97.

his labour is being exploited solely for the gain of his employer.

In so far as there is a feeling of co-operation introduced, this may lead to greater individual efficiency. But it can lead to this only indirectly. It is to the interests of both parties that the selling-price be high and not that the output be great. Indeed reduced output may raise prices, and hence possibly increase profits, and certainly increase wages. It therefore may be to the employer's interests to restrict output, though this is problematic, depending on the degree of trustification and the absence of foreign competition, but it certainly will be to the employees' interests to keep up prices at least to the point where the last unit produced finds a market. It may, therefore, while uniting the interest of capital and labour, at the same time lead both to exploit the consumer.

This potential evil in the system may show itself in two ways. First it may simply add a new strength to the policy of restriction of output. Under-production, in ordinary circumstances, might lead to higher prices, and under the sliding scale system to higher monetary wages. It is to be noticed that the sliding scale system of gas companies was a direct contradiction of this method. In the gas industry higher prices meant reduced dividends and reduced bonus to labour, thereby directly encouraging efficient and economical production. With wages and prices knit *directly* together instead of inversely there is the encouragement to labour to promote higher prices, and so far the discouragement of economy. It is, of course, already the policy to charge the highest obtainable price for goods, and consequently the added effect of making this also to labour's interest is not immediately appreciable.

Second, since the war a new industrial revolution—more rapid and more far-reaching than the former one—has been in progress. In 1919 it was reported by the Committee on Trusts that there is an increasing tendency to the formation of trade associations having for their

purpose the restriction of competition and the control of prices. While there is as yet no great volume of evidence to show that excessive prices have been charged by these combinations, still the monopoly power which they possess will certainly call for some form of legislation designed to establish governmental supervision and control over their activities akin to that exercised in the United States by the Federal Trade Commission. To make high prices also to the employees' interest is to add a still greater menace to this price-manipulating power. Theoretically a trust can reap the same profit from selling a large production at a moderate price or a small one at a high price. The sliding scale would certainly add a cogent argument in favour of the latter policy. If unemployment resulted the tendency of labour would be to impose strict limits on the number of entrants to the trade. Thus the modern movement to restrict the free-play of competition renders the introduction of the sliding scale in this form especially undesirable.

The Defects of the Sliding Scale.

The fundamental defect of the system is that it makes dearness of production the condition of high wages. It gives both parties a vested interest in keeping up prices. There are limits to their powers of doing so just as there are limits to every type of profiteering. A world scarcity, blockades, licences, tariffs and prohibitions grant enormous powers of exploitation; free trade, open competition and normal conditions circumscribe the powers of monopolists. The employer would always have to choose between small profits on many sales, or large profits on few, and under average conditions the latter is impossible. The employees' inducement to restrict output is much greater. High prices for his product mean high wages. Only the purse of the buyer need limit the price charged, and by limiting supply he can ensure that the price rises. Of course, if he so increases cost of production that an economic selling-price is impossible he commits industrial suicide, but short

of this his interests are in high prices. His interests, also, are identical with the capitalists' in encouraging monopolistic combinations and so killing normal price-reducing competition. The usual aim of the manufacturer is not so much high prices as high profits, which are not necessarily dependent on the former, but may be due to efficient administration.

This tendency of the system to remunerate the worker out of the buyer's pocket is distinctly to be condemned. It adds a financial interest to the policy of restricting output, a policy which needs no encouragement. In so far as the price is not influenced by the efforts of the worker it makes his remuneration subject to the varying influences of the market. While these influences redound to his favour all goes well, but if, as is possible, a long period of falling prices sets in this would successively decrease his remuneration. Provided that the fall in the specific commodity produced is representative of the fall in general prices no great hardship would result, as the spending value of his wages would remain constant. But unless this happens it may mean a serious and unjust reduction in real wages.

That the system has in practice promoted industrial peace is due more to accident than merit. It has automatically compensated the workers for the rise in the cost of living. Other classes of labour have got this only by continual bickerings and quarrels with the employers. All that is good in it could equally well and much more surely be achieved by adopting the general sliding-scale principle. The product-price system makes no claim to promote directly any increase of output, or indeed industrial efficiency in general. It is plainly inapplicable to most types of industry, where articles produced vary greatly to meet the various needs of different markets and where prices fluctuate violently.

This latter criticism is shown to be justified by the history of the sliding scale system in the coal-mining industry. Prior to the war the miners' wages all over the Kingdom

were fixed by Conciliation Board agreements on the realized values of coal. This would have meant extreme variations in the wages paid as between districts producing export and those producing domestic coal and the impossibility of fixing a national wage-standard for the whole industry. Consequently, though Conciliation Boards still exist, the miners do not use them simply because they rightly do not see why their wages should be made dependent on such general market conditions as the price realized for their products. From the worker's view-point it is a "chance" bonus dependent on supply and demand, and though it may make him "a humble partner" from a financial point of view it holds out no promise of a measure of real control and responsibility.

Summary.

Three types of sliding scales must be distinguished:

(1) The sliding scale depending on the fluctuations of general prices, i.e. wages and consumption are co-related.

(2) That depending on the variations in the price of the particular commodity produced and so arranged that wages rise in *inverse* ratio to price, i.e. wages and economical production are co-related.

(3) The special commodity produced is still the criterion, but wages increase in *direct* proportion to prices, i.e. wages and dear production are co-related.

Reference was made to the first in Part I, Chapter III, to the second in Part III, Chapter XIII. The third dealt with here is in most common use in Britain in the iron and steel trades. During the long history of such schemes, extending in some cases over forty years, it has been found that they tend to promote industrial peace. This is due probably not to the intrinsic merits of the plan, but to the fact that the price fluctuations of the basic commodity produced represent in miniature the same variations as those of general prices. It guarantees an approximately level standard of consumption. This could be

more surely achieved by a general sliding-scale as already applied to the railwaymen, and to certain branches of the printing and dyeing industries.

Where wages and prices are thus knit together it is evident that labour shares in the proceeds of the business. This would have, and indeed has, promoted identity of interests. But the method of securing it is unfortunate, in that it may mean unity against the consumer. Already the formation of combinations is threatening the public with the monopolistic control of production, and with wages depending on high prices the tendency to exploitation would be enormously strengthened.

From the worker's view-point a bonus determined by price must be largely fortuitous; his only control over it involves the anti-social attitude of restricted production, and in many directions the system is inapplicable, or where applicable likely to be unjust.

CHAPTER XVIII

MISCELLANEOUS SCHEMES

To complete our survey of the various methods used in apportioning profits among employees it is necessary to mention several other types of schemes. These are all designed to benefit the workpeople, either collectively or individually, by allocating them in addition to their regular remuneration a sum out of profits. As we have seen, there is an enormous variety in the ways of determining the amount of this sum and an equally great variety in the form of payment. The two associated ideas underlying the form of payment are, first, that of reward for service, and second, that of satisfying the needs of the employees. Both are frequently employed conjointly; indeed the difference is rather one of emphasis than one of kind. When a cash payment according to wages, or efficiency, or length of service is used, the main idea is that of compensation. When payment is made into a thrift, provident, pensions or insurance fund, an attempt is made to reserve this reward for the satisfaction of the particular needs of the workmen. The two purposes are conjoined when the amount is determined by deserts and the form of payment by needs. For instance, if shares are given, the purpose is to encourage thrift and to supply the workman with a reserve of capital against contingencies. But co-partnership if it meant no more than this would be indeed barren of fruitful results. The essence of its claim to universality lies in the fact that it is a safe, half-way position, capable of acceptance by both parties, between the present tottering industrial system and a new democratic orientation of control. It has in it the germ of a new status for labour. This is the unique quality which distinguishes co-partnership from all those schemes designed merely to ameliorate

the lot of the working-classes. In essence they suffer from the same defect as do most schemes on charitable lines, they are palliatives and not preventatives. They merely relieve for the moment and give no hope of a permanent cure.

Gratuity Bonuses.

Very often employers grant their workers a bonus at holiday times. This bonus is purely an act of goodwill, it bears no direct or known relationship to the profits, it is not the result of any agreed scheme known to the participants, and its amount rests entirely at the discretion of the management. Usually the bonus is in cash, though during the war period many companies, such as the Imperial Tobacco Co., gave their bonus in the form of war bonds or war saving certificates.

The traditional method of industrial control makes a system such as this the most natural to the typical employer. He is under no obligation as there is no agreement, there is no "interference" with his control of the undertaking, and his autonomy is preserved. This may commend it to the employer, but certainly not to the worker. Judged from almost every point of view a bonus in the form of a mere gift is futile when not actually harmful. The only good thing to be said about it is that it will enable the worker to buy something useful, and as it represents a transfer from rich to poor is, if wisely spent, socially beneficial. All of which can be equally well said of a common tip.

It does nothing to promote efficiency. In former days when labour and capital lived and associated in a different atmosphere it may have earned gratitude. To-day it does not. It merely confirms and accentuates the old-fashioned benevolent and paternal attitude of capital and the dependent and servile status of labour. It has taken labour 100 years to establish "the common rule" and to make its wage-standards quite independent of "the discretion of the

management." To grant or accept an extra depending on the caprice of those in authority spells of autocracy and almsgiving. This goes directly against the modern aspirations of labour and, as a consequence, though refusal of the gift is unlikely, it carries with it no reciprocal gratitude for favours bestowed.

There is no other possible way in which the granting of such a bonus could stimulate output than by earning the workers' gratitude and good-will. As no plan is announced there is ample room for criticism by the workers. Often employees are asked not to divulge the amount they receive in order that no awkward comparisons impugning the employer's judgment may be made. Yet facts leak out and unrest, dissatisfaction and jealousy are frequently the result. Recently an employer in an export business with a staff of about 30 distributed very handsome bonuses to his assistants at Christmas. As his assistants were all personally known to him he tried to make the bonus conform to the needs of each individual. To one office boy, the son of a widow, he gave £10, to another £5. The morning after the distribution he discovered the two boys engaged in a deadly feud on his office doorstep, and on his enquiring as to the casus belli he was treated to some expert criticism of his bonus distribution. There is a good deal of this boy-nature in older and soberer folk. "Never have I had such a time of discontent and petty jealousies," was the concluding statement of this employer, who is firmly resolved never to experiment with further bonus-giving.

Moreover such a bonus, not being guaranteed and therefore not paid until after the work is done, is not in any known relation to profits, turnover, output or prices, and therefore provides no direct incentive to faithful service or greater effort. It does nothing to improve the worker's status beyond giving him a little ready cash. For these reasons a gratuity bonus has normally no influence whatsoever either on efficiency or industrial relations.

Provident Funds.

A fund of this nature is variously designated as a mutual superannuation, insurance, benefit or pension fund. It may be devoted either to the general good of the employees, including sick allowances, disablement grants, marriage dowries, and education, or to superannuation or insurance purposes. Further, it may be founded either on profit-sharing or a contributory basis, or again it may be either paternally or democratically administered.

Some six cases exist in Britain where the whole of the profit-sharing bonus accruing to workers is compulsorily credited to a provident fund. In the larger number of such schemes only one-half or one-third of the bonus is so credited, the remainder being normally paid out in cash. In the case of some seven other schemes the mutual fund is a by-product of the main profit-sharing scheme. Employees who have failed to fulfil the conditions of participation forfeit their bonus, which is then credited to a common fund for the benefit of all.

Where, however, the creation of a provided fund is the end in view two distinct methods of allotment are used, first, each individual's share may be credited to him personally, or second, the whole of the workers' share may be pooled for their mutual benefit. The first is the more common method; each individual gets when the occasion arises the sum standing to his credit in the fund. The second method postpones the question of allocation till the emergency arises and then seeks to grant a sum sufficient to meet the requirements of the case.

Provident funds, however, have frequently no direct connection with profit-sharing, i.e. they are not built up of sums allocated out of profits on some definite pre-arranged scheme. Their basis is contributory, either from the employers' side or from the workers', but more usually both parties subscribe. Of course, in a certain sense schemes founded on profit-sharing are contributory, but these are to be clearly distinguished from schemes where the workmen

voluntarily give part of their wages, or allow reductions to be made therefrom, for the purpose of forming the fund. Employers again may at their own discretion vote annual sums to such a fund. The normal method is for the employer to contribute to the provident fund in some fixed proportion to the amount the workers voluntarily contribute. The latter is by far the more desirable method.

As a foundation for the erection of a provident fund, profit-sharing is less effective than is a contributory basis. If the employees desire the benefits of such a fund and earn wages sufficient to enable them to contribute, it seems much better to allow them to do so than to adopt the roundabout method of giving it to them by means of profit-sharing. Profit-sharing in cash we have seen to be largely ineffective in promoting increased efficiency or better industrial relations among the great mass of wage earners. This ineffectiveness is all the greater when we consider how much further deferred the payments are when the bonus is transferred to a provident fund. It may minimize the possible disturbances through rendering less personal the consciousness of bonus fluctuations but this is due more to the fact that the employee is not aware of receiving any direct benefit at all. A contributory basis guarantees that the employee has considered the scheme, desires to share its benefits and is prepared to make some sacrifice to earn them.

Where the provident fund is simply donated by the employers we have the most undesirable condition of all. In the case of a world-renowned undertaking the Employees Benefit Fund for which no contribution is required from the employees, is made up in the following manner. "The intention of the company is to make ...... during their pleasure voluntary contributions to the fund ...... provided always that the company shall be under no obligation to continue contributions and may at any time alter, suspend or terminate their contributions to the fund without being obliged to give any previous notice." Where

a fund is constructed on such arbitrary conditions it is impossible, no matter what the nominal composition of its board of trustees, that it could be administered democratically. It is certainly a less objectionable plan to introduce the roundabout method of adding to the fund the workers' share in profit, as this obscures the alms-giving taint and helps to make the workers feel that they have earned the benefits they receive. But this basis of accumulation is inferior to a contributory scheme.

The extent to which employers and employed contribute will naturally differ widely, but where immediate sacrifices of part of the weekly wage have to be made for a very deferred future benefit, it is normally the case that very strong inducements will have to be offered. In the case of the Pension Fund instituted by Rowntree & Co., Ltd., the company's contributions provide about 75 per cent of the pensions in the case of the men and over 80 per cent in that of the women.

While in this case, as in the case of capital-sharing, it is desirable to ensure appreciation by making some contribution a condition of entry, it is also for the same purpose by far the better method to educate the worker up to the stage of realizing its benefits rather than to force him to contribute. Membership of the scheme should be entirely optional and failure to join should carry with it no disability whatsoever. Again, as before, the fund should be jointly administered by a committee representative of both parties.

The final question of the relative merits of sharing profits through co-partnery or by a benefit fund is easily settled. The latter is to co-partnership as moonlight is to sunlight or as water is to wine. It has practically no effect on efficiency. An extremely remote benefit which is realized only in proportion to the misfortune and consequent non-productivity of the subscriber is not likely to exert any significant force on present effort. Will it induce labour to stay with the firm? Again its effect can only be slight. No scheme which ties the worker to a particular employer is

ever likely to be permanently successful. It would evoke the strenuous opposition of labour; in every case surrender values have to be allowed to permit employees to withdraw without loss; usually this takes the form of returning the member's subscriptions plus compound interest. There remains, therefore, only the inducement to continue because severance means the loss of past and future shares in the part contributed by the company. This inducement being cumulative will operate with greatest force among older employees, among whom in any case it is less necessary.

When the provident fund is invested in shares of the company will these give the beneficiaries a feeling of having identical interests with the firm in increasing production, and therefore profits, and therefore the amount of the benefit fund? It is hardly necessary to say that this cannot be expected. The share which eventually will accrue to each individual due to his extra effort, is far too remote and problematic. In any case it is so much a mere by-product of his efforts that he is bound to remain quite indifferent to his personal influence on the pool.

Lastly, will the fact that provision is made for his misfortunes sweeten his industrial life and remove the common distrust and suspicion? Here again we are trying to remove a mountain with a spoon. One hundred years of traditional autocracy and neglect lie behind the present attitude of labour and nothing that does not promise a new orientation of industrial control will be effective. Even this will take years to leaven the whole lump. To guarantee an armchair in old age, a bed in sickness, and mayhap a coffin at death, may be an excellent social act, but it leaves untouched the gall and wormwood of servility and dependence. It gives labour no new dignity, it merely renders less irksome the old indignities.

Deposit Schemes.

Under such schemes the employer becomes the banker for his workers. The latter deposit their savings with the

undertaking, but instead of drawing the market-rate of interest, they receive a rate varying with the rate of dividend declared on the firm's capital. Two contingent types of schemes must be clearly distinguished from this one. The first is a slight variation of the ordinary profit-sharing type but instead of the cash bonus being actually paid out to the participants, it is credited to each individual in a savings account. This is obviously only an unimportant modification in the method of payment. The second is the contributory scheme discussed in the next chapter. Here the difference is a fundamental and significant one. Under deposit schemes the worker gets no share in the capital of the undertaking, his deposit is merely a condition of profit-sharing which in this case means only an increase in the interest he receives. In both he has to lay down his own money, in one case to buy capital, in the other to earn a share in profits.

Deposit schemes as thus defined have a very favourable record in respect of longevity. All the schemes belonging to this class that have been started in the United Kingdom have survived. They are some twelve in number and include one started in 1866 (Fox Bros. & Co., Ltd., Somerset), and another (Sir W. G. Armstrong, Whitworth & Co., Ltd.) begun in 1878 and now the largest profit-sharing scheme in the United Kingdom. The three cases of similar schemes abandoned in this country all belong to the type where the profit-sharing bonus is merely accumulated as deposits and not to the type we are here dealing with where the bonus consists of paying an additional rate of interest on the employees' savings varying with profits.

The fixed minimum rate of interest guaranteed by the depositees varies enormously. Usually it is fixed at a figure which will equal, at least, what the depositor would have received from the ordinary banks. In practice 2½, 3, 3½, 4, 4½, 5 and 7½ per cent are paid in different cases, depending generally on the market conditions when the scheme was inaugurated. As a supplementary rate,

varying with profits, is also paid it is not so necessary continually to change the basic rate as conditions alter. The extra increment over and above the fixed minimum is determined in a variety of ways, the only common element in them all being that this depends on the prosperity of the business. In some cases it is equal to half the rate by which the dividend on ordinary capital exceeds the fixed minimum, in others the total return is at the same rate as the dividend to shareholders, or three-quarters or one-half of such rate, or according to a scale varying with such dividends.

A maximum rate beyond which the total return on employees' deposits cannot go is also usually laid down and is normally about 10 per cent. The maximum amount that any one employee can deposit is sometimes fixed and in different cases varies from £50 to £500, or again it may vary according to length of service. Employees are in almost every case allowed to withdraw their deposits on short notice.

The general criticism against this scheme is that while it may be a useful stimulus to saving, it does not promise, even if continually administered and universally applied, to develop into any transforming agency. It does not touch the question of the ownership and control of industrial capital. It certainly encourages thrift, and as such is to be commended, but it leaves untouched the vital question of industrial relationships.

As the extra interest earned is in proportion to the profits of the business it may be thought that this should act as a stimulus to production. But in this case also the bearing of the company's balance sheet on the interest each individual receives is too remote, too insignificant, too much entangled with the influence of hundreds of his fellow-workers, and other extraneous circumstances beyond any employee's knowledge and control, to exercise any appreciable effect on effort. From any single individual's point of view his extra earnings appear to depend much

more directly on his savings than on his industrial efforts and hence thrift rather than efficiency is stimulated.

Has such a system any effect in promoting cordial relationships quite apart from direct incentives to output? The answer would appear to be that it creates no other feeling than that between a depositor and his banker. The company becomes to the wage-earner no more than a bank paying an unusually high rate of interest and there the matter ends.

A comparison with a contributory shareholding scheme brings out the essential limitations of all such benevolent plans. Where a company becomes to its wage-earners a savings bank, as under a deposit scheme, or an insurance company, as under the various provident plans, it fails to touch the real seat of our industrial trouble. Outside agencies can and do minister to these needs, and their assumption by any undertaking for its employees does not promote the ideal of industrial partnership. Where, however, the worker's savings are really invested in the firm and he has a direct share in its capital and control common interests are much more likely to be created. Further, the worker is not isolated as a class receiving separate treatment, but has to line himself alongside the general body of shareholders though receiving somewhat preferential conditions, and in the main his difficulties, trials and complaints are shared along with the larger body of stockholders. In this there lies the promise of a new prestige and with it the hope of a new outlook.

Summary.

Several other methods are also used of granting the worker an extra award, presumably from profits. This bonus, as it is usually called, may take the form of a mere gift, or again it may be placed to the credit of a provident fund designed to secure the worker against want due to sickness, accident or old age, or again it may take the form of an extra inducement to thrift,

Gratuities achieve nothing. They are much less effective in commercial life than they are in social life. They represent no collective bargain but are reminiscent of a time when paternalism and resignation were the characteristic industrial attitudes. They effect little improvement in efficiency and none in status.

Provident funds are excellent social provisions but have no direct effect on the economic world. They are not designed to promote industrial effort, and fail even to improve the relations of capital and labour. Where the employer donates the fund partly or wholly the effect is apt to be demoralizing, where he enters into competition with the state, the trade unions and assurance or insurance companies, and merely administers the fund, he earns no more gratitude than do these outside agencies. Briefly a provident fund does not promote industrial integration.

The employee may acquire a deposit account with his company through an accumulation of his share in profits. He may, again, voluntarily place his savings with the firm, first, to purchase capital, second, to acquire, besides ordinary interest, a share in profits. The last is here considered. No schemes of this nature have been abandoned. This indicates either extreme soundness or comparative irrelevancy. The latter would seem to be the case. The fact that an employer takes an incursion into banking does little or nothing to contribute to the solution of current industrial problems. The higher rate of return given certainly encourages thrift, but it leaves untouched the urgent questions of efficiency and co-operation. If, however, such savings are used to make the worker a real effective shareholder the position is much improved.

CHAPTER XIX

CONTRIBUTORY CO-PARTNERSHIP

THE merits of co-partnership are based not so much on the method of developing it as on the actual results it achieves. Normally and historically it has had its origin in profit-sharing. But we have seen that cash profit-sharing among the great mass of factory workers promotes neither industrial efficiency nor social contentment. Only in proportion as the worker approaches in function the normal class that receives profits does profit-sharing become a dynamic force. This approach may be due either to being in the higher ranks of a large industrial unit, or to belonging to a comparatively small one.

But profit-sharing may have its place as the medium by which the wage-earner may reach the status of co-partner. This depends on what weight is attached to the urgency of his attaining that status and also on the existence of other suitable means. The first question has been considered already in the opening chapters. It is enough here to re-assert that to-day the urgent need exists for some effective means of ensuring hearty co-operation between capital and labour. Whatever else be necessary to secure this it is safe to prophesy that one essential is some sort of interchange of rewards. The wage-earner in virtue of his investment of capital must share in the profits, and inversely capital sunk in the business from the outside must be remunerated more on a wage principle and less on a profits one.

Can a better method of effecting this transfer be found than by profit-sharing? Instead of the worker getting more or less gratuitously an arbitrary share of a problematical profit, can he be enabled, and when enabled, induced, to invest his money from motives of self-interest in the

undertaking that employs him? Profit-sharing as the medium of co-partnership has several disadvantages. First, it smacks of charity; the worker does not feel that he has worked for and earned just the amount he receives. Consequently he fails to appreciate it. Even as a gift it fails to earn gratitude, for employers as a rule are not looked on as friends whose gifts symbolize their goodwill to the recipients. Consequently the extra money not being regarded as a free-will offering, is apt to be looked on as a dole, a bribe or a bait. When received as shares these are not valued and cherished with a clear consciousness of the rights and obligations they imply. The annual receipt of the dividend and the possibility of realizing the capital-value of the shares in case of an emergency gradually dispel this neglectful attitude and recall the holder to a real appreciation of their significance. But while this is so the origin of the shares may mean that the gift to self-respecting labour has a sting in its tail.

Again the idea, so fondly cherished of man, of a slow but steady accumulation of a reserve is absent. Profits fluctuate considerably and consequently so does the rate of progress in acquiring the fund. So also, though much less violently, does the dividend on the shares held, but the profit-sharing bonus being only a share in the upper reaches of a potential profit is liable to much greater variations and may even disappear altogether. This unreliability on progressive accumulation with its impossibility of more than guessing as to the future is a grave defect of the profit-sharing basis of co-partnership.

Profit-sharing again is not selective of capacity to control investments. It puts shares into the hands of those who in many cases have no desire to hold them and no education or experience to use them. To attempt to discriminate on grounds of general commercial intelligence is impossible, to do so on grounds of productive efficiency would not guarantee the presence of this business ability, and in any case must be an arbitrary, second-hand and subjective

judgment. Thus it has been found in practice undesirable to allow the worker-shareholders the full rights of ordinary shareholders and in so withholding these rights the whole claims of co-partnership are stultified. A co-partnership committee may help to remove this disability, but the existence of this committee is not a necessary concomitant of co-partnership, and if it exercises the same rights (as is desirable) as the shareholders do, dual control, or the subordination of the workers' committee to the dictates of the general meeting of shareholders' may result.

Just as the employee suffers by the erratic behaviour of profits in that his progress in share-acquisition is similarly erratic, so the employer has no guarantee and no automatic check on the multiplication and transfer of his shares. He runs the risk of having to over-capitalize his business, or alternatively to transfer what may ultimately amount to the majority of his shares to his workpeople. Both dangers have been recognized and guarded against, but they have meant the creating of a thorny series of rules and limits which are liable to prove either irksome or even, in individual cases, positively unjust. Over-capitalization has been obviated by reserving a proportion of a new issue for the employees, by buying and issuing at current market value, and by reserving the right to pay part or the whole of the bonus in cash. This danger of over-capitalization has been further guarded against by regulations designed in the first place to limit the employees' holding. Either the total amount of employee-shares is fixed, or each individual holding, and this while designed primarily to prevent the employees from acquiring too big a holding of capital also at the same time reduces the danger of over-capitalization.

Ways of Acquiring Shares.

While these are grave and weighty reasons against profit-sharing as a basis of co-partnership, they may be entirely outweighed by still more urgent considerations. It may be the case that unless profit-sharing is used no

other alternative is practicable. The first of these alternatives is the free gifting of the shares. Normally such a proposal comes within the realm of practical politics only when capital is being written up, or the business changed into a limited liability company. In a recent case where the latter had occurred it was suggested that 50,000 shares be presented to the employees. The firm employed about 1,500 workpeople and the proposal of the directors was to limit the participation to the managers and supervisory staffs.

It is almost certain that in the present industrial situation the gratuitous presentation of shares or cash is productive of no good results. It is arbitrary and tends to emphasize the autocratic structure of industry. It dissociates the two ideas of reward and merit, and far from earning gratitude it usually succeeds in nothing but in convincing the workers that the company which employs them is immensely rich and can afford to bear the burden of increased wages. What is acquired easily is usually lightly esteemed, and what is given for nothing is neglected.

Consider as a contrast the opposite extreme where shares are issued to workmen on the normal terms. They are made fully contributory and so much is deducted every week from wages to pay for them. The workman would rightly object to any obligatory clause in such a scheme, and would not voluntarily submit to the curtailment of his weekly wage for this purpose. If he be offered shares on the usual terms he will not take them. It is calculated that to-day the working man has over £250,000,000 in savings banks, but this represents a small holding per head, and even this he is not disposed to invest in industry on the usual terms offered. It is true, therefore, that in most cases he has little surplus to invest, in the remaining cases if he has he will object to putting "all his eggs in the one basket." He naturally does not see why he should be asked to behave in a way other investors do not. They spread their capital and so should he. Were he to put his

money in the business that employed him his wages and his whole reserve would be at the mercy of the same set of industrial circumstances. This is a final answer to those who hope that the workman will voluntarily and without extra inducement put his meagre capital on the same horse as his wages.

Can the workman-investor be induced by extra attractions to share the economic lot of his industry? Facts go decidely to prove that in some measure he can. For instance, in the Bradford Dyers' Association, Ltd., some 3,600 employees hold shares in the company to the total nominal value of almost £300,000, representing about 6 per cent of the total paid-up capital. A considerable number of these shares were allocated gratuitously to ex-soldiers but some 560 employees had acquired by purchase on favourable terms ordinary shares to the value of £145,260, and some 207 had acquired preference shares to the value of almost £13,000. The inducement in this case consists in an annual bonus on the ordinary shares held by employees, fluctuating with the rate of dividend on these shares. If the dividend is over 5 per cent, the employee-shareholder receives a bonus of half this rate (including bonus-dividends). Thus if the ordinary shares get 17½ per cent the worker-shareholder gets a total of 26 per cent, as actually happened in 1919. In addition an employee is advanced a sum sufficient to enable him to acquire double the number of shares he can immediately pay for. This advance can be paid off by simply allowing the dividend and bonus (less 5 per cent interest on the money advanced) to accumulate or by adding to this out of his own savings. Other schemes belonging to this type are those of William Cory & Son, Ltd., coal factors and exporters; Hazell, Watson & Viney, Ltd., printers and bookbinders; the Amalgamated Cotton Mills Trust, and very recently, the Ford Motor Co., Ltd., Manchester. In the last case it is stated that over 70 per cent of the employees have expressed a desire to share in the benefits of the scheme.

Everything considered, the writer ventures to assert that no better method than this can be found of linking up the interests of capital and labour. Already it has been pointed out wherein ordinary profit-sharing and co-partnership founded on that basis fails. In the immediately preceding chapters the limits of certain other schemes have been discussed, but in the case of contributory share-holding we have the maximum of advantages and the minimum of disadvantages. No scheme approximates so closely to the ordinary economic position of the general shareholder. The extent of the variation from the normal shareholding situation is simply a recognition of the peculiar position of the worker-shareholder. This position requires and deserves special consideration because of the comparative poverty of the investor whose small savings are his sole reserves. Security is an important concern. To grant absolute security as to both capital and dividend is to defeat the whole principle of co-partnership. For the same reason the issue of non-participating preference shares or of mortgage or debenture stock is not desirable. If the money invested in industry is to give the worker a real, vital interest in his occupation it must be paid for in proportion to that industry's prosperity. An extra reward to the employee-shareholder in proportion to profits earned is a most appropriate inducement to an investor whose efforts contribute to those profits. As his small savings mean more to him, the real risk being greater so also should the reward. But while community of interest demands a dividend that will vary with the prosperity of the business it is quite possible to guarantee a return of original capital. It is understood, of course, that as the movement grows such special inducements will no longer be required and could be gradually withdrawn. Second, loss of wages through unemployment or under-employment is an effect of the same condition as lowers his dividend on his invested capital. Therefore if the same slackness in a particular business reduces both wages and dividends

the latter ought to be greater than that accruing to the ordinary investor whose capital is spread and whose risks are therefore minimized.

Advantages of Contributory Co-partnership.

Profit-sharing co-partnership where shares are given in proportion to profits earned, is non-selective of capacity. Where the share of profits is given in cash with the option of investing in the business it is not usual for any advantage to be taken of the opportunity. The employee will prefer in nine cases out of ten to take the bird in the hand. In the few cases where he chooses the two in the bush, it still remains true that more or less the holding he gets in the business will really be gratuitously given. It will as a consequence be esteemed lightly and the rights, privileges and obligations it entails will be neglected.

Where the initiative must come from the employee we approach nearer some selective principle. The employee wants these shares and is much more likely to be conscious of what they mean and to be capable of exercising the control they carry with them. If the employee has no wish to possess shares, it is probably better that he should not have them, rather than that he be given them or have them thrust upon him. Should he desire them, he should be prepared to sacrifice something to acquire them and the inducement, within limits, should be tempered to his capacity. If at present he has no desire for them he should be so educated as to lead him to entertain this legitimate aspiration. The thrifty, far-seeing workmen are naturally selected as the participators. The fact that their own small accumulation of capital is sunk in the undertaking stimulates their interest and gives them a real sense of proprietorship. The action on their part is purely voluntary and free. They are induced to invest, not manoeuvred by alms-giving into that position.

The argument, first used against Leclaire, that this would create a small body of "little masters," and benefit

only the better-paid, more thrifty, more intelligent workmen has a measure of truth in it. But this is exactly the class of workers on whom it is most desirable to bestow in the first instance the industrial enfranchisement. Further, the three attributes above mentioned do not necessarily co-exist in the one individual. The better-paid workers may not be the most thrifty, nor indeed the most intelligent. Much depends on early opportunity. Again the existence of a small surplus over necessities will depend on the particular family responsibilities of each individual. It seems most likely, therefore, that the nucleus of employee-shareholders will in the first instance consist of a sprinkling from many grades of labour. It might also be possible in " tempering the wind " to offer special facilities to such as were known to have heavy domestic obligations.

The ideal is that the position of the workman-investor should be as near as possible that of the ordinary shareholder. If a workman benefits or suffers along with the mass of the company's shareholders he is far less likely to feel himself specially aggrieved. He is one of a great body of shareholders with even less to complain about than they have. If the shares are paying little or no dividend he has the same rights as any other shareholder in criticizing the policy of the management and in suggesting remedies. This must inevitably lead him to adopt a new point of view to the business. He ceases to become a mere wage-earner, whose sole interest lies in pushing up wages, and becomes an investor who must take into account the commercial circumstances and general well-being of the industry.

Owning capital in a business without control over it is as empty and meaningless as exercising control without having a stake in the concern. The two must be conjoined. To put control in the hands of many people because a few want it is as foolish as giving shares to workers who do not desire them. But to assist workers who wish to acquire shares and to follow this up by delegating control in

proportion to holding is a sane and reasonable procedure. It assists the ambitious to realize a new status beyond that of a mere wage-earner. In other words it helps those who are prepared to help themselves—and such are the only men who will appreciate help.

It is not a revolutionary proposal. It is not chargeable with the fallacious reasoning that what will be a stimulus to a few will when split into a thousand parts prove an equal stimulus to many. It is not a dream proposal designed at a stroke to establish the millenium. Such futile Utopian dreams lie scattered like will-of-the wisps over the fair field of economic progress, and to the historian are interesting, to the ignorant dangerous, and to the practical man merely amusing. These castles in the air are usually built on no foundation of past experience and in every case neglect the fundamental psychological and economic facts. Any change that will be lasting and truly progressive must build the new structure on the intimate details of the old.

Contributory shareholding by employees is such a change. Up till to-day it has rarely been encouraged. Indeed till recently it was hardly possible. Labour has now got tremendous economic punch, and if it persists in merely occupying its former position of wage-earning it can and will batter industry to ruin. Such will ultimately be as fatal to labour as to capital, but the present mean attitude of suspicion, mistrust, and often positive hatred venting itself in constant bickerings and strikes seems to point to this ultimate calamity. But if the higher scale of wages accruing to labour could be employed in revolutionizing its attitude to industry the siege may yet be raised.

It has been proposed by an eminent authority that additions to wages should be given in the form of shares in the business. In the near future there is every likelihood that the strikes to raise wages will be replaced by the economic pressure of unemployment to lower them. As the cost of living falls, wages automatically rise and labour

will strenuously resist any decrease in nominal wages. Unemployment and continual strife are the certain results. Capital is urgently needed for industry, and a safe half-way house could be found between unemployment on the one hand and industrial strife on the other if labour's extra wages could be attracted back to fertilize the source from which they are produced. This can be done only by contributory co-partnership by which industry would receive much needed capital and the worker a share in the fortunes of his craft.

Here is a safe, conservative, and yet progressive proposal for attaining this end devoutly to be wished. Not share-holding dependent on profit-sharing but profit-sharing dependent on the free voluntary act of the worker in acquiring shares in his industry. To what it may eventually lead no prophet can tell. One thing it must do and that is destroy the hateful distinction between wage-earners and profit-takers, between those who live by working and those who live by owning. This bitter cleavage in the social unity, so grossly exaggerated by the exclusive appropriations of one class and the extreme mal-distribution of the national income, is the root trouble in the industrial sphere to-day. This proposal offers an avenue of escape to a better order of things.

Summary.

Co-partnership, in spirit and in fact, being most desirable, the question follows as to the best means of bringing it about. The employee may either be given a share in capital or be helped to acquire it.

Mere gifting is as futile as leaving the worker to buy in the open market. He must be induced to invest. The two possibilities remaining are either profit-sharing or contribution. Some will maintain that these are not opposed—that profit-sharing is contribution. The important question is, " Does the worker feel he is buying the shares when he gets them as his share in

profits?" This is more a psychological than an economic problem.

Under the normal scheme the worker does not feel he has earned the shares he receives. He has not sacrificed anything for them and therefore fails to appreciate them. No selection of capacity to use them is made, they accumulate erratically, and from the management point of view it may be, uncomfortably.

If direct presentation of shares implied in gifting and the indirect presentation implied in profit-sharing be alike undesirable what other methods are possible? Obviously to leave matters as at present is not enough. To ask the workman to invest in the business which employs him is to ask more of him than of the ordinary shareholder inasmuch as it means a concentrated risk for both his savings and wages.

If sufficient inducement be offered the employees are prepared to invest either their savings or some part of their earnings in the undertakings for which they work. The precise nature of these inducements must depend on circumstances, but they can take the form of easy acquisition, issue below market value, a guarantee of capital, early credit of dividends, assured minimum return, extra dividends over ordinary shares or an accompanying share in profits. In every case the workers' reward ought to be in proportion to the prosperity to which he contributes, otherwise the undertaking instead of becoming a real, live interest to the investor, becomes merely a bank to a depositor.

Contributory co-partnership possesses the maximum of advantages. It implies desire, and this again means the appreciation to some extent of the thing desired. It is granted that capacity to buy does not necessarily imply capacity to use, but this capacity to buy under contributory co-partnership must be accompanied by willingness to buy. In the case of a workman investing his small reserves this normally could result only from

some understanding of the rights and privileges involved.

To segregate the worker by creating for him a special class of shares is a mistake. The minimum of differentiation should be introduced and that all in the worker's favour. Moreover what is required to induce the worker to begin need not later be necessary to make him continue. Control must accompany ownership. The two cannot be divorced without denying the essence of each. Contributory co-partnership is a safe half-way stage to a new distribution of wealth and to an obliteration of the too deeply underlined distinction between capital-owners and wage-earners.

CHAPTER XX

THE FUTURE OF PROFITS

It is a mistake to consider the present industrial system as a complete, self-sufficient unity, the parts of which cannot be altered without disintegrating the whole. Equally foolish is it to imagine that it can be destroyed, as visionaries preach, and a new order suddenly substituted in its place. Russia is not Britain, and even so no Britisher wants to work in Russia to-day. Sudden upheavals and revolutions are always ineffective when directed to remove in a day what took a hundred years to develop, simply because an industrial system is a growth and not the creation of a moment.

That the present system urgently requires alteration is undoubted. Nobody is satisfied with it. Labour under it is resentful, morose, disgruntled, and feckless; capital is wary, unsettled and timid, and whatever we may think of the criticisms advanced against it, and the ill-judged remedies proposed there is no getting away from the actual fact that at present the system is working most inefficiently. A few more years of such industrial friction and British prestige and trade will be ruined, the industries we kept captive here because of our efficiency will have flown back to the source of their raw material and the only hope remaining for our crowded industrial masses will be emigration. Some remedy for this deadly dry-rot is urgently needed.

Three courses are possible. First there is the way of war. Recent industrial happenings have proved beyond a doubt that the war spirit is rising. Up till now moderation on the part of both sides has more or less held the ring. Both have shown themselves willing to discuss, willing to

compromise and, in general, prepared to refer matters to impartial tribunals.

Labour, spurred on by decreasing purchasing power, has time and again renewed its demands. In a rising market these can be safely conceded, but now the employer, faced with heavy taxation and a heavy slump in trade, finds his back against the wall. He talks of accepting the challenge of labour, of fighting, once and for all, and having done with it, of teaching the worker a lesson. Consequently lock-outs are already appearing in the industrial arena.

The utter folly of the course in which the practical business world is heading must be evident to all. Both sides are certainly at fault. The old adage about two fools being necessary to make a quarrel fits the case. Capital must give up its autocracy and divide its spoils and its power, labour must give up its craft sectionalism and assume industrial responsibility. The way of war will never achieve this. It means immense irreparable loss and universal hunger and, worst of all, it settles nothing. It may end a quarrel for a time but it never settles or composes it. Whoever wins in the contest, the country loses. If we could imagine that through unemployment and forced idleness labour was starved into submission and forced to crawl back to work on the dictated terms, this would be no solution. We may cry peace but there would be no peace. The political difficulties ushered in by the armistice of November, 1918, would have their replicas in the post-armistice industrial field. The hundred years' struggle of trade unionism would be concentrated in the bitterest five years of industrial strife the country has ever known.

If war threatens to be the atmosphere into which the new industrial world is to be born, everything depends on the keeping of tempers. Nothing irritates like secrecy, which is always suspected of being the cloak thrown around dishonest, unjust, underhand and ungentlemanly acts. Men are never so likely to settle a question rightly as when they discuss it freely. On the worker rests the major part

in the reconstruction of industry. He it is who demands it and only because in demanding the new, he is prone to neglect to make the best of the old, does capital feel the necessity of resistance. Again, for the majority to confiscate capital is much easier than for the minority to conscript labour. Thus the minority must wait on labour's constructive suggestions and to-day there is only a Babel of tongues. If the extremist won in the struggle we should have many years of dire industrial chaos. The limited experiment in Italy in the summer of 1920 ended in a return to the status quo simply because no group can at one and the same time steal a business from its owners and ask credit from its customers. Stability is the nursery of trade and revolution its death-bed.

Second, the employer recognizing the futility and wastage of industrial war may simply give up business. This may not be courageous, but it is very natural. Cases of this are occurring every day; sometimes it simply means short time, or dismissal of large numbers of employees, or shutting down altogether for a time, and after an effort at resuscitation, eventually liquidation. Or it may take a more exaggerated and dramatic form as in the announcement "Strangled by Labour: a new industry for Yeovil killed at birth." To impute all business failures to such causes would be undoubtedly unjust, but the fact remains that to-day the impossibility of foreseeing the future due largely to the teeth-on-edge attitude of labour is the biggest single factor in obstructing industrial progress.

Labour's alternatives to the present system are nebulous, untried, are too big a jump from the present and founded on motives too contradictory to those actually at work to invite confidence. Altruism, patriotism, love of work and service are each taken carelessly as adequate substitutes for personal incentives. This may be very good poetry but is exceedingly bad philosophy. These emotions may be cultivated, they should be cultivated, but to-day they would be as dead as the dodo if left as the sole animating

motives of industrial life. The wheels of industry will not revolve under any such altruistic and other-regarding motives; if such a revolution as this be desired, let the reformer begin with human nature.

Real Progress.

Sure lasting progress can be achieved only by methods of conciliation. This is the third possibility. Transformation and not destruction is required. In the present stage of civilization and communal development it is absolutely necessary to retain the incentive of profit. Theoretical and practical considerations alike prove this necessity. In Part I this was discussed in more detail and the exceptions to this general principle were shown to have very limited spheres.

If profits are necessary to present-day production to whom should they be justly distributed? The three factors determining profits are productivity, management and trade conditions. The first means manual labour, raw materials, machinery and equipment. Management implies experience, knowledge and skill in the co-ordination of men, money and machines. The risk-bearing inevitably associated with trade conditions is borne to a considerable extent by the shareholders. Out of profits the latter are justified in claiming payment for plant, equipment, working capital, and a premium for the insurance they undertake.

The service of manual and mental labour consists in, as it were, vitalizing the plant. For this wages are paid. Labour does not normally or automatically receive any share in the prosperity of the industry. It may by fighting tactics increase wages during a boom period but at such a time the employers' power of shifting the increase on to the consumer is greatest. In such a case the consumer and not the employer pays the advance in wages. But the worker's power of exacting an advance in wages out of profits is problematic and illusory, compared with the employer's power of making the worker feel the effects

of a depression. If the employer had merely the limited power he possesses of reducing wages this would be nearer an equitable distribution of power as between the two parties. But the employer possesses the enormously more potent weapon of dismissal and unemployment and there is no equivalent for this in labour's hands.

Moreover, this weapon is an extraordinarily severe and crushing one. Labour is, to use an analogy, the most perishable "commodity" in existence. Not only is idle time completely irrecoverable, but idleness leads to degeneracy, lowered self-respect and reduced morale, so that when work is resumed efficiency is much less than before. Thus, adverse trade conditions exact heavy sufferings from the wage-earners. The position is rendered worse by the fact that the worker often feels, with some justification, that his enforced idleness is not inevitable. It may be due simply to bad management or to the conscious adoption of a policy of restricting output in order to keep up prices. But in either case it is not inevitable and labour feels that it ought to be consulted in a matter which so directly concerns its interests.

Certain it is that there is no industrial hardship comparable to unemployment. The real problem is not how to relieve it but how to abolish it. Prevention is better than cure. The meagre provision made under the State scheme, besides being grossly inadequate, does nothing to render unemployment less frequent. While therefore labour is left to suffer from causes largely beyond its control it seems natural that it should claim to benefit when trade is good. Equally with capital the labour factor shares in fluctuations and because it necessarily suffers by a deficit in industry it seeks to benefit by a surplus.

To claim this share in the form of increased money wages is simply futile. To claim only an increase of purchasing power is simply endless, and in any case when accepted in the form of wages supplies by itself no principle automatic in its adjustment of profits to wages. The

calculating of wages in terms of purchasing power through the adoption of a sliding scale based on the index numbers would be an excellent line of advance, and would achieve the very desirable result of freeing wages from the upsetting effects of rising prices. But taken by itself it does not, of course, solve the question of how to knit up automatically the shares of capital and labour.

Assuredly something must be done, and that quickly, if the present industrial system is to be rescued from utter chaos. The way of war, no matter who should claim the victory, would, as we saw, solve nothing. The appalling dislocation due to strife, carrying in its wake waste, loss, starvation and an ever-growing bitterness between class and class, must be removed if progress is to be made possible. Again, it is an indisputable fact that labour's mental outlook is broadening and finding itself cramped in its present wage-earning status.

A Constructive Plan.

Some bold, progressive, yet safe, policy is the only remedy. This it is suggested is to be found in the introduction of co-partnership by means of contributory shareholding. The mistakes that have led to the failures in this movement must be avoided. Briefly these have been the following. First the introduction of the autocratic element into such schemes. This has usually taken the somewhat strange form of the donating of responsibilities in the shape of shares. Second, the profit-sharing basis has on the whole been a mistake largely because it puts last things first. Third, giving is no substitute for desiring to have, and the primary need is ability to use and appreciate.

The conditions of a real co-partnership between capital and labour include the following—

(1) Entire freedom of entry and of exit. No attempt should be made to coerce or cajole the workers. They should be as free to enter or to leave the scheme as any

shareholder is to invest. The standard wages of the industry should always be paid and no condition prejudicial to trade union membership should be inserted. The worker should be permitted to dispose of his shares whenever he thinks fit and no restriction should be imposed on mobility.

(2) Shares should be paid for by the workers. In industry to-day gratitude is never earned by giving. Humanity does not value what it receives gratis but only what it earns or buys. Because the peculiar constitution of gas companies favours this idea of earning, co-partnership has flourished greatly among them.

(3) While the workman should be asked to contribute from his savings he should meantime be offered much stronger inducements than the ordinary shareholder. This because he has to be attracted to embark on a course which up till now he has never travelled. Besides the inertia that has to be overcome, he is asked to put his wages and capital in the same boat. Again, a workman's capital is intrinsically of more value to him with his limited resources than an equivalent amount in the hands of the general investor.

These inducements should take several forms. Safety and realizability are very important for the small investor. So also is facility of acquisition by, for instance, the acceptance of small instalments or by mutually arranged deductions from wages. Another form is the payment to employee-shareholders of an extra dividend over and above what is granted to ordinary shareholders. The nature and extent of the extra inducement offered to labour must depend on the precise conditions of each case. These are best advanced when new issues of capital are being made, as was the case in the recent boom period.

(4) Many of the profit-sharing wrecks that litter the industrial shore have come to grief just because they failed to live through periods of industrial storm. While the worker was prepared to accept a share of the profit, he never

adopted such a mental attitude as enabled him to bear the losses. He proved a "very bad loser." Partly this was due not to lack of the sporting instinct, but to the fear that he had been deceived by the bookmaker. Nevertheless the logical and necessary corollary of gain-sharing is loss-sharing. Unless the worker is prepared to stand by in times of stress, he has not understood or realized the real meaning of profit-sharing.

It is one of the cardinal virtues of co-partnership that it brings home to the worker the essentially unstable nature of industrial enterprise. Automatically he shares in losses through a reduced dividend. Moreover, he does not stand alone, he suffers no more and probably less than do the mass of shareholders, and he has no grounds for suspecting that he has been differentiated against in the interests of the other shareholders. It is for this reason that the general principle is advocated of introducing the smallest possible difference between the conditions under which the worker and the outsider hold shares.

(5) Owning apart from controlling is meaningless. The worker in acquiring capital must feel he is acquiring a real, live power over the business in which it is invested. As each individual worker's share will necessarily be very small this power can be exercised only collectively and would naturally rest largely among those whose steadiness and length of service had enabled them to acquire most. Thus the operation of a scheme of this nature would select for power those most suited to use it rightly.

This power would be expressed in two ways. First, as shareholders, the workers would be entitled to the ordinary rights of voting at the annual or semi-annual meetings. But the limited degree of control meant for outside investors is not suited to express that intimate familiarity which workers have with the daily operations of the business. This has been already recognized by the Whitley report and by the establishment of joint committees within the works for various purposes. These "Co-partnership"

committees are the second vehicle for expressing the workers' larger interest in production. For years to come they must be largely experimental, but even then they are performing the invaluable function of bringing the workers into real contact with business problems. It is frequently asserted that the workers will not assume responsibility, they will not come to decisions, and they use these opportunities of touching the wider issues merely as media for passing on grievances. This mere negative work is not directly furthering the object in view but it seems equally certain that no real, positive, constructive work can be achieved until the huge mass of hidden, festering grievances—real and apparent—has been brought to light and adequately dealt with. But this stage will pass and the only fear is that in its passing it may prove too much for the halting spirits.

Trade Unionism.

One of the great obstacles in the way of progress will certainly be the vested interests enthroned in trade unionism. All real progress must consist in developing personality; this means diversity and not uniformity. In so far as uniformity is the binding force in the present organization of labour this basis is bound to be unsettled by such innovations as payment by results, profit-sharing, co-partnership and joint control. A denial of this is merely illogical. A new body controlling nothing is simply ridiculous. The whole trend of affairs is to repose more and more control in joint bodies of employers and employees. This must necessarily represent a subtraction from the control exercised severally by either employers' associations or trade unions, and pari passu with the growth of joint bodies the necessity for the other two must diminish.

These are essentially built up just because of the differences between the classes. The respective societies are in the main defensive rather than constructive. Employers' associations have generally proved themselves more capable

of change than workers' associations. Partly this is due to a somewhat higher level of education, to the relative smallness and pliability of the body and to the fact that these institutions have not brought into existence a large body of paid servants with no desirable alternative occupation. Trade unions built on the existence of a class of wage-earners naturally find that any movement which lifts the worker out of a dead level of sameness, by payment according to ability and not according to "standard," by knitting his interests up with the firm or the industry rather than the craft, is prone to disseminate the concentrated enthusiasm which supports them.

Thus extreme measures seem more desirable than safe or sane ones. The complete abolition of the industrial system, the overthrow of capitalism, the dictatorship of the proletariat mean the autonomy and tyranny of trade unionism. To an ambitious but crystallized institution transplanting is easier than transforming. That way lies revolution and starvation. Progress is possible only if those existing institutions which embody the present distinctions are altered and changed to suit the new conditions. Whatever else this means it certainly implies the substitution of the industry for the craft as the basis of organization. The settlement of labour's remuneration will no longer be left to the wretched wrangle of opposing forces but will become merely a matter of accountancy.

This joint control, following on joint ownership of the factors of production while eliminating the distinction between capital-owners and capital-users will, it has been urged, create only another line of demarcation. The partners in industry united in common aims will in their own interest exploit the community in general. Producers will then be ranged against consumers. This difficulty may have to be met just as to-day the menace of huge monopolies and trusts must be met by government intervention in the interests of the community.

The true chain of progress as here outlined is that

labour should be encouraged to acquire industrial capital and as a natural consequence a share in the profit, responsibility and control of business. To share profits with labour is the wrong method of approach and because of its illogical nature jeopardizes the whole process. The contributionary qualification for co-partnership is essential because it selects appropriate recipients. If educational facilities and financial inducements are not sufficient to lead the worker to become a capital-holder, no mere donating of the shares even on a profit-sharing basis will avail. The main thing is to prepare the worker by leading him to desire and to sacrifice for his new and higher status. Only by education can the worker climb socially and by co-partnership industrially. These fundamental things achieved it follows naturally that the workers can safely become co-managers and co-directors with capital-owners in the field of industry.

Summary.

Private profit, while apparently essential to induce effort to undertake risks, is at the same time the feature most objected to in our "acquisitive society." Could it be abolished? Only with safety by eliminating the service which makes profit a necessity. But risk-bearing is an exceedingly complex phenomenon depending on factors which defy human calculation and to eliminate it is impossible.

The unfair element in industry to-day is that while labour is no partner in the gains of industry it has inevitably to share its losses. This it does through unemployment or under-employment. Labour is justified in asking as automatic a share in the surplus as it has in a deficit. To claim this in wages or to receive this as mere profit-sharers is alike inexpedient.

Complete partnership is the only cure. This implies a contribution to capital, freedom of entry, extra rewards over dead shareholding and a measure of real responsible

control. This means an increase of status for the workers and in order to function fully in the new vocation they must be enlightened and educated.

In the progress towards co-partnership, the biggest obstacle in the way will probably be the vested interests of the labour unions. They are organized for wage-earners and not for shareholders. 'They arose to protect and they remain to stultify. They are erected on those very differences and separations which co-partnership exists to obliterate. Consequently co-partnership strikes at the very foundation of the isolation, unity and self-sufficiency of craft trade unionism.

This means that modern trade unionism will perforce have to do what it urges society to do—change its system. The mere negative, resisting, defensive attitude it adopts in its own practice will have to give place to a liberal, constructive point of view. For it is fundamentally impossible to conceive of individual wage-earners being co-partners in industry while finding their complete fulfilment in a society formed and functioning on its negation.

The new movement will obliterate the old socially-disintegrating castes of owners and workers, and its corresponding distinction of profits and wages, and the new remuneration for all will be wages-cum-profits, which in combination destroys for ever the obnoxious qualities in each. This implies industrial rather than trade or craft organization on both sides. The master and servant, employer and employee, capital and labour relationship will give place to partnership within which will emerge, through equal opportunity, the new spirit of leadership in industry. The workers will become capital-owning co-partners with possibilities of becoming through their abilities, democratically recognized, co-managers and co-directors of industry.

To this desired solution contributory co-partnership and educational advancement are the most practical and potent steps.

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